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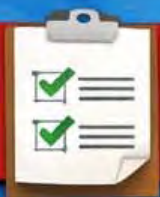


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CBSE Examination Paper 2026

Class XII

Economics (030)

Time: 3 Hours

Max. Marks: 80

General Instructions:

Read the following instructions carefully and follow them:

- (i) This question paper contains 34 questions. All questions are compulsory.
- (ii) This question paper contains two sections:
Section - A: Macro Economics
Section - B: Indian Economic Development
- (iii) This Question paper contains 20 Multiple Choice type questions. Each question carries 1 mark.
- (iv) This Question paper contains 4 Short Answer Type-I questions. Each question carries 3 marks. Answer these questions in 60 to 80 words.
- (v) This Question paper contains 6 Short Answer Type-II questions. Each question carries 4 marks. Answer these questions in 80 to 100 words.
- (vi) This Question paper contains 4 Long Answer type questions. Each question carries 6 marks. Answer these questions in 100 to 150 words.
- (vii) Attempt all parts of a question together.
- (viii) In addition to this, NOTE that a separate question has been provided for Visually Impaired candidates in lieu of questions having visual inputs, map etc. Such questions are to be attempted by Visually Impaired candidates only.
- (ix) There is no overall choice in the question paper. However, an internal choice has been provided in few questions. Only one of the choices in such questions has to be attempted.

SECTION – A

(Macro Economics)

1. In an economy, when _____ is insufficient to achieve the level of output corresponding to the full employment, the difference is termed a deflationary gap. (Choose the correct option to fill in the blank)
- (A) ex-ante Aggregate Demand
 - (B) ex-post Aggregate Demand
 - (C) ex-ante Aggregate Supply
 - (D) ex-post Aggregate Supply

Ans :

(A) ex-ante Aggregate Demand
A deflationary gap occurs when the planned (ex-ante) Aggregate Demand falls short of the Aggregate Supply required for full employment. This deficiency in spending leads to a decline in output, income, and employment. In Keynesian economics, gaps are measured using planned values (ex-ante) rather than actual realized values (ex-post).

2. In an economy, exclusion of _____ may lead to under estimation of the value of Gross Domestic Product (GDP). (Choose the correct option to fill in the blank)
- (i) Barter Transactions
 - (ii) Services provided by family members
 - (iii) Illegal activities
 - (iv) Depreciation of Assets
- (A) (i) and (ii)
 - (B) (ii) and (iii)
 - (C) (iii) and (iv)
 - (D) (i), (ii) and (iii)

Ans :

(D) (i), (ii) and (iii)
GDP aims to measure the market value of all final goods and services. Barter transactions, non-market services (like family care), and illegal activities contribute to economic welfare but are often excluded because they lack recorded market prices. Their omission results in a GDP figure that is lower than the actual economic activity.

3. Identify, which of the following is true at the Break Even level of Income. (Choose the correct option)

(A) Slope of Consumption Curve = Slope of Saving Curve
 (B) Average Propensity to Consume (APC) = Average Propensity to Save (APS)
 (C) Slope of Saving Curve = Unity (1)
 (D) Average Propensity to Consume (APC) = Unity (1)

Ans :

(D) Average Propensity to Consume (APC) = Unity (1)

At the break-even level of income, consumption equals income, so saving is zero. Therefore, the Average Propensity to Consume (APC) becomes 1, as all income is spent on consumption. Hence, option (D) is correct because APC equals unity at this level of income.

4. Read the following statements carefully:

Statement 1: Final goods are those goods which normally lose their identity in the production process.

Statement 2: Final goods may get transformed during the consumption process by a consumer.

(Choose the correct option)

(A) Statement 1 is true and statement 2 is false.
 (B) Statement 1 is false and statement 2 is true.
 (C) Both statements 1 and 2 are true.
 (D) Both statements 1 and 2 are false.

Ans :

(D) Both statements 1 and 2 are false.

Final goods are those goods that are used for final consumption and do not undergo further production, so Statement 1 is incorrect. However, during consumption, goods may be used up or transformed (e.g., food eaten), so Statement 2 is correct.

5. Read the following statements: Assertion (A) and Reason (R). Choose the correct option from those given below:

Assertion (A) : Unilateral Transfers are recorded in the Current Account of the Balance of Payments (BoP) of a nation.

Reason (R) : Capital account records transactions which cause a change in the assets or liabilities of the country.

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).

(C) Assertion (A) is true, but Reason (R) is false.

(D) Assertion (A) is false, but Reason (R) is true.

Ans :

(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).

Unilateral transfers (like gifts, remittances, donations) are recorded in the current account of the Balance of Payments, so Assertion (A) is true. The capital account records transactions affecting assets and liabilities, which is also true. However, it does not explain Assertion (A).

6. "In the Indian Banking System, the Statutory Liquidity Ratio (SLR) plays a vital role in controlling the credit creation capacity of the Commercial Banks, as it ____." (Choose the correct option to fill in the blank)

(A) ensures that all the deposits are converted into liquid assets.

(B) requires banks to maintain a percentage of deposits in the form of liquid assets.

(C) sets the maximum interest rate which the banks can charge on loans.

(D) promote banks from lending beyond a specific proportion of their total reserves.

Ans :

(B) requires banks to maintain a percentage of deposits in the form of liquid assets.

SLR is a monetary policy tool where the RBI mandates commercial banks to keep a specific portion of their total deposits in liquid assets like gold or government securities. By raising the SLR, the RBI restricts the amount of money banks can lend, effectively controlling the credit creation capacity.

In an economy, the currency held by the public, Net Demand Deposits with Commercial Banks and Net Time Deposits with Commercial Banks stand at ₹1,42,000 crore, ₹22,000 crore and ₹86,000 crore respectively. The value of Money Supply (M_1) would be ₹ ____ crore.

(Choose the correct option to fill in the blank)

(A) 2,50,000

(B) 86,000

(C) 1,64,000

(D) 1,42,000

Ans :

(C) 1,64,000

The M_1 measure of money supply includes only the most liquid components: Currency with the public and Net Demand Deposits. Net Time Deposits are excluded from M_1 as they are not available for immediate transactions. Calculation: $1,42,000 + 22,000 = 1,64,000$ crore.

8. In a two sector economy, the flow of factor payments moves from _____ to _____. (Choose the correct option to fill in the blanks)
- (A) firms, households
(B) firms, government
(C) banks, households
(D) households, firms

Ans :

(A) firms, households

In a two-sector circular flow model, households provide factor services (land, labor, capital) to firms. In exchange, firms make factor payments (rent, wages, interest, profit) to the households. This represents the flow of money from the production sector (firms) to the household sector as compensation for services.

9. Read the following statements: Assertion (A) and Reason (R). Choose the correct option from those given below:
- Assertion (A) :** Money is of perishable nature and is generally accepted by all at any point of time.
Reason (R) : Money serves as a store of value, facilitating individuals to transfer purchasing power from the present to the future.
- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Ans :

(D) Assertion (A) is false, but Reason (R) is true. Assertion (A) is false because money is durable, not perishable; it is designed to last over time without physical decay. Reason (R) is true because one of the fundamental functions of money is “store of value,” which allows individuals to save wealth and use it for future consumption.

10. Read the following statements carefully:

Statement 1 : Depreciation of currency is an economic action undertaken by the government of a nation under the fixed exchange rate system.

Statement 2 : Under the floating exchange Rate system, authorities actively intervene in the foreign exchange market by way of maintaining foreign exchange reserves.

In the light of the given statements, choose the correct option from the following:

- (A) Statement 1 is true and statement 2 is false.
(B) Statement 1 is false and statement 2 is true.
(C) Both statements 1 and 2 are true.
(D) Both statements 1 and 2 are false.

Ans :

(D) Both statements 1 and 2 are false.

Statement 1 is false because government-led reduction in currency value under a fixed system is called Devaluation; depreciation occurs via market forces. Statement 2 is false because in a pure floating system, the market determines the rate without intervention. Active intervention to maintain reserves characterizes a Managed Floating system.

11. “Under the provisions stated in the Section 20 and Section 21 of the Reserve Bank of India (RBI) Act, 1934, the RBI is mandated to handle the banking operations of the Government of India.” In the light of the given statement, elaborate the indicated function of the Reserve Bank of India.

Ans :

The function indicated is Banker to the Government. As the government’s banker, the RBI performs the following roles:

1. Maintenance of Accounts: It maintains the current accounts of both Central and State governments and carries out all their banking transactions, such as receiving payments and making disbursements.
2. Public Debt Management: It manages the public debt by issuing and managing new loans on behalf of the government and selling treasury bills to raise short-term funds.
3. Advisory Role: It acts as an advisor to the government on various economic and monetary matters, such as inflation control and fiscal policy.

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12. (A) Two friends, Devanshi and Harshit, were discussing whether prize money from lottery winnings, should be included in India's National income.

Harshit was of the view that it should be included, while Devanshi did not agree with him.

As their Economics teacher, guide them with correct treatment of the same with valid argument.

or

- (B) Meera and Shahid are two classmates, who were comparing India's economic growth over the years.

Meera referred to the increase in Gross Domestic Product (GDP) at current prices prevailing in market, while Sahid insisted on considering GDP after adjusting for inflation. Their debate on which of the two measures gives a true picture of people's well-being, remained inconclusive.

Considering the above mentioned situation, elaborate with valid reason, which of the two variables is considered a better indicator of welfare and why?

Ans :

- (A) Devanshi is correct; prize money from lottery winnings should not be included in India's National Income.

Argument: National income only includes payments made for producing goods or rendering services (factor services) within the production boundary. Lottery winnings are considered windfall gains. They are essentially transfer payments because no value addition or productive activity takes place in exchange for the money. They do not reflect the current productive capacity of the economy.

or

- (B) Real GDP (GDP adjusted for inflation, as suggested by Sahid) is considered a better indicator of economic welfare than Nominal GDP (GDP at current prices).

Reason:

1. Elimination of Price Effect: Nominal GDP can increase simply because prices have risen, even if the actual quantity of goods produced remains the same.
2. Focus on Physical Output: Real GDP increases only when there is an actual increase in the physical volume of production. Since welfare depends on the

availability of goods and services, Real GDP directly reflects improvements in the standard of living.

13. (A) Ms. Reeta D'Costa, retired from the post of Income Tax Commissioner in the year 2023. Apart from her pension, she also receives the following from various sources:

- Rental income from a flat she owns.
- Interest income from her fixed deposits.
- Money sent by her children settled abroad.

Identify and classify, her monthly incomes into 'factor income' and 'transfer income', with valid reasons.

or

- (B) For a hypothetical economy, assuming there are only two firm (X and Y) with equal values of Gross Value Added (GVA).

On the basis of the following data, estimate the values of Domestic Sales by firm X:

S. No.	Items	Amount (₹ crore)
(i)	Value of Output of firm Y	1,400
(ii)	Purchases by firm X from firm Y	400
(iii)	Exports by firm X	200
(iv)	Purchases by firm Y from firm X	300
(v)	Additions to Stock of firm X	100
(vi)	Consumption of fixed capital	100

Ans :

- (A) The classification of Ms. Reeta D'Costa's income is as follows:

1. Factor Income:

- (i) Rental income from a flat: This is factor income (Rent). It is the reward for providing the factor service of property for use in the production boundary.
- (ii) Interest income from fixed deposits: This is factor income (Interest). It is the reward for providing the factor service of capital.
- (iii) Retirement Pension: Since she retired from a specific post, this is a "deferred wage" for past productive services, making it factor income.

2. Transfer Income: Money sent by children settled abroad: This is transfer income. These are personal remittances or unilateral transfers. They are received “for free” without any corresponding factor service being rendered in the current period.

or

(B) Given,

Identification of Given Data :

- Value of Output of Firm Y (VO_Y) = ₹1,400 crore
- Intermediate consumption of Firm Y (IC_Y) = Purchases from Firm X = ₹300 crore
- Intermediate Consumption of Firm X (IC_X) = Purchases from Firm Y = ₹400 crore
- Exports by Firm X = ₹200 crore
- Change in Stock of Firm X (ΔS_x) = ₹100 crore
- Condition: $GVA_x = GVA_y$

Key Formula :

$$GVA = \text{Value of Output (VO)} \\ - \text{Intermediate Consumption (IC)}$$

$$VO = \text{Total Sales} + \text{Change in Stock}$$

$$\text{Total Sales} = \text{Domestic Sales} + \text{Exports}$$

Calculation of Gross Value Added (GVA) of Firm Y:

The value added by Firm Y is determined by subtracting its intermediate purchases from its total output:

$$GVA_Y = VQ_Y - IC_Y$$

$$GVA_Y = 1,400 - 300 = ₹1,100 \text{ crore}$$

Determination of GVA and Value of Output (VO) of Firm X : As per the problem statement the GVA of both firms is equal. Therefore:

$$GVA_x = GVA_y = ₹1,100 \text{ crore}$$

Now, using the GVA formula for Firm X to derive its total value of output (VO_x)

$$GVA_x = VQ_x - IC_x$$

$$1,100 = VQ_x - 400$$

$$VQ_x = 1,100 + 400 = ₹1,500 \text{ crore}$$

Estimation of Domestic Sales by Firm X :

The total value of output for Firm X is the sum of its domestic sales, exports, and addition to stock. We can now solve for the unknown domestic sales:

$$VQ_x = \text{Domestic Sales} + \text{Exports} + \Delta S_x$$

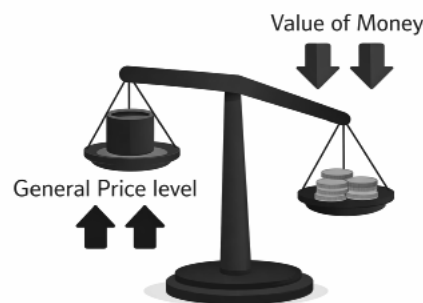
$$1,500 = \text{Domestic Sales} + 200 + 100$$

$$1,500 = \text{Domestic Sales} + 300$$

$$\text{Domestic Sales} = 1,500 - 300$$

$$\text{Domestic Sales} = ₹1,200 \text{ crore}$$

14. Refer the given image carefully.



Explain any two measures that can be taken by the Central Bank to control the indicated macroeconomic problem.

Ans :

To deal with the situation of the highlighted macroeconomic issue, i.e., inflation, the Central Bank may adopt the following measures:

1. Repo Rate: An increase in the repo rate will compel commercial banks to raise their lending rates, making credit more expensive for the general public and discouraging borrowings. As a result, aggregate demand will decrease, thereby helping to control inflation in the economy.
2. Open Market Operations: The Central Bank can sell government securities in the open market, which will reduce the funds available with commercial banks for lending. Consequently, aggregate demand will decline, thus helping to control inflation in the economy..

NODIA

15. Michel, an entrepreneur of Country Zeta, borrowed \$5 million from an overseas bank to expand his textile business.

During the same financial year, the Government of Country Zeta secured a loan of \$30 Billion from an International Financial Institution to manage the ongoing Balance of Payments.

Samuel, an Economics student categorized both of these transactions as ‘autonomous transactions’ in the BoP account of the country.

Do you agree with his classification? Justify your answer with valid reasons.

Ans :

No, I do not agree with Samuel’s classification.

Autonomous transactions are those transactions which are undertaken with the motive of profit maximization or normal business purposes and are independent of the Balance of Payments position.

In the given case, the loan of \$5 million taken by Michel from an overseas bank is an autonomous transaction because it is taken for business expansion and profit motive.

However, the loan of \$30 billion taken by the Government from an International Financial Institution is a compensatory transaction, as it is undertaken to correct the imbalance in the Balance of Payments.

Therefore, both transactions cannot be classified as autonomous transactions.

16. Refer the given text carefully:

According to the Economic Survey 2024-25, the government budget's projections for the fiscal year 2025-26 indicate that gross direct tax revenue will rise by 12.7%, while gross indirect tax collections are expected to grow by 8.3% relative to FY 2024-25.

Direct taxes include income tax and corporate tax, reflecting earnings and profits of households and firms. It plays a key role in revenue growth of the government. Indirect taxes encompass Goods and Services Tax (GST), custom duties and other transaction-based levies.

Higher growth rate projected for direct taxes suggests a push to enhance tax buoyancy through improved compliance and reforms. On the other hand, indirect taxes are expected to benefit from consumption trends and Goods and Services Tax (GST) administration improvements. The balance tax strategy aims to mobilise resources while supporting fiscal consolidation and sustainable economic growth.

On the basis of the above passage and common understanding, answer the following questions:

- Differentiate between the two types of taxes indicated in the above text, with suitable examples.
- Elaborate the likely consequences of the tax projections made by the government.

Ans :

(i)

Basis	Direct Taxes	Indirect Taxes
Meaning	Taxes imposed on income and profits of individuals/firms	Taxes imposed on goods and services

Burden	Cannot be shifted to others	Can be shifted to others
Impact & Incidence	Fall on the same person	Fall on different persons
Examples	Income tax, Corporate tax	GST, Customs duty

- Higher growth in direct taxes indicates better tax compliance and increased income, leading to higher revenue for the government.

Growth in indirect taxes reflects higher consumption and improved tax administration, helping in fiscal consolidation and economic growth.

- 17. (A)** Income of an economy increased from ₹40,000 to ₹1,00,000 crore. Savings of the economy increased from ₹4,000 crore to ₹20,000 crore.

(i) Calculate Average Propensity to Consume (APC) and Average Propensity to Save (APS) before and after the rise in income.

(ii) Draw appropriate conclusion regarding the behaviour of Average Propensity to Save (APS) as his income increases.

or

- (B)** "Under a study, examining the spending habits of a hypothetical economy, it was observed that even households with zero income managed to consume basic necessities. As the income of people increased, their consumption also increased, but not as rapidly as income."

Based on the given text and common understanding, answer the following questions:

- Identify and elaborate the type of consumption indicated in the first para of the above text.
- Explain the reason behind the positive slope of Aggregate Demand Curve.

Ans :

(A) Given :

Income increases from ₹40,000 crore to ₹1,00,000 crore

Savings increase from ₹4,000 crore to ₹20,000 crore

- (i) Calculation of APC and APS

Before rise in income :

Income (Y) = ₹40,000 crore

Savings (S) = ₹4,000 crore

$$\begin{aligned}\text{Consumption (C)} &= Y - S \\ &= 40,000 - 4,000 \\ &= ₹36,000 \text{ crore}\end{aligned}$$

$$\begin{aligned}\text{APC} &= C/Y \\ &= 36,000/40,000 \\ &= 0.9\end{aligned}$$

$$\begin{aligned}\text{APS} &= S/Y \\ &= 4,000/40,000 \\ &= 0.1\end{aligned}$$

After rise in income :

$$\text{Income (Y)} = ₹1,00,000 \text{ crore}$$

$$\text{Savings (S)} = ₹20,000 \text{ crore}$$

$$\begin{aligned}\text{Consumption (C)} &= Y - S \\ &= 1,00,000 - 20,000 \\ &= ₹80,000 \text{ crore}\end{aligned}$$

$$\begin{aligned}\text{APC} &= C/Y \\ &= 80,000/1,00,000 \\ &= 0.8\end{aligned}$$

$$\begin{aligned}\text{APS} &= S/Y \\ &= 20,000/1,00,000 \\ &= 0.2\end{aligned}$$

- (ii) Conclusion : As income increases, APS increases (from 0.1 to 0.2). This shows that people tend to save a higher proportion of their income as income rises.

or

(B)

- (i) Type of Consumption:

The type of consumption indicated is Autonomous Consumption :

It refers to the minimum level of consumption which takes place even when income is zero. This consumption is necessary for survival and includes expenditure on basic necessities such as food, clothing and shelter. Since there is no current income, it is financed either by dissaving (using past savings) or by borrowing. It is independent of the level of income.

- (ii) Reason for Positive Slope of Aggregate Demand Curve:

The Aggregate Demand Curve is positively sloped because there is a direct relationship between income and consumption. As income increases, people tend to consume more

goods and services. However, the increase in consumption is less than the increase in income due to the operation of the law of diminishing marginal propensity to consume. As a result, aggregate demand increases with increase in income, leading to a positive slope of the Aggregate Demand Curve.

SECTION – B

(Indian Economic Development)

18. Read the following text carefully:

“In the recent times, the Government of India, has introduced several measures to encourage greater public participation in the capital market, including both primary and secondary stock markets.”

Under which sector have the above mentioned reforms been introduced? (Choose the correct option)

- (A) Industrial
(B) Financial
(C) Taxation
(D) Foreign Trade

Ans :

- (B) Financial

The capital market, which includes both primary and secondary stock markets, is a core component of the financial sector. Reforms targeting these markets are designed to improve the mobilization of savings into productive investments. These measures enhance the efficiency and transparency of financial intermediaries, making them part of financial sector reforms.

19. The Montreal Protocol was signed in the year 1987 committing nations to _____. (Choose the correct option to fill in the blank)

- (A) protect biodiversity from any further losses.
(B) reduce the impact of global warming.
(C) protect ozone layer from depletion incurred due to chlorofluoro carbons.
(D) reduce the impact of deforestation.

Ans :

- (C) protect ozone layer from depletion incurred due to chlorofluorocarbons.

The Montreal Protocol is a landmark international environmental treaty specifically designed to protect the Earth's ozone layer. It mandates the phase-out of the production and consumption of ozone-depleting substances, primarily chlorofluorocarbons (CFCs). It remains

one of the most successful global agreements for environmental protection and climate stability.

20. Read the following statements : Assertion (A) and Reason (R), Choose the correct option from those given below:

Assertion (A) : The notion of rural development encompasses a far wider spectrum than agricultural advancement.

Reason (R) : Government interventions in the agricultural sector remain imperative; as it constitutes the primary means of sustenance for the rural population.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
 (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
 (C) Assertion (A) is true, but Reason (R) is false.
 (D) Assertion (A) is false, but Reason (R) is true.

Ans :

(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).

Assertion (A) is true because rural development includes literacy, health, and infrastructure, not just farming. Reason (R) is also true as agriculture is the primary livelihood in rural areas. However, (R) does not explain why rural development is “wider” than agriculture; it only highlights the importance of the agricultural component.

21. Identify, which of the following, highlights a highly relevant issue associated with evolving employment trends in India’s labour market?

- (A) Progressive increase in share of permanent salaried employees.
 (B) Increase in the proportion of casually employed individuals.
 (C) Expansion of self-employment avenues in all regions.
 (D) Significant rise in job opportunities within the formal sector.

Ans :

(B) Increase in the proportion of casually employed individuals.

A critical issue in India’s labor market is the “casualisation of the workforce.” This trend involves workers moving from self-employment or regular salaried jobs into casual wage work. Such employment lacks job security, social security

benefits, and stable income, reflecting the growing informality and vulnerability within the evolving economic landscape.

22. Match the terms given in Column-I with their respective meaning in Column-II. Select the correct option:

	Column-I		Column-II
(i)	Seasonal Unemployment	(a)	Private enterprises hiring less than 10 employees
(ii)	Self-employed	(b)	Workers using their own resources to earn livelihood
(iii)	Unorganised sector	(c)	Unemployment occurring in specific season
(iv)	Disguised Unemployment	(d)	Zero Marginal Productivity

- (A) (i)-(d); (ii)-(a); (iii)-(b); (iv)-(c),
 (B) (i)-(b); (ii)-(a); (iii)-(c); (iv)-(d),
 (C) (i)-(c); (ii)-(b); (iii)-(a); (iv)-(d),
 (D) (i)-(c); (ii)-(d); (iii)-(a); (iv)-(b).

Ans :

(C) (i)-(c); (ii)-(b); (iii)-(a); (iv)-(d)

Seasonal unemployment occurs when people are unemployed during certain times of the year, while self-employed individuals use their own assets to earn a living. The unorganised sector is defined by small units hiring fewer than 10 workers. Disguised unemployment occurs when redundant labor results in zero additional output or marginal productivity.

23. Read the following statements : Assertion (A) and Reason (R), Choose the correct option from those given below:

Assertion (A) : The Government of India adopted the measure of regulation of markets to improve marketing conditions for agricultural products.

Reason (R) : Regulation of market ensured transparent pricing, fair trade practices, and protection for farmers against exploitation in agricultural marketing.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A)
 (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A)

- (C) Assertion (A) is true, but Reason (R) is false,
 (D) Assertion (A) is false, but Reason (R) is true.

Ans :

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

Regulated markets were established to eliminate malpractices like faulty weighing and high commissions by middlemen. Because these markets ensure transparent price discovery and protect farmers from exploitation, the reason provided is the direct justification for why the government adopted market regulation to improve overall agricultural marketing conditions in the country.

24. Arrange the following events in China's economic development history in correct chronological sequence and select the correct option:

- I. Great Proletarian Cultural Revolution.
- II. Great Leap Forward.
- III. Introduction of Economic Reforms.
- IV. Launch of the First Five Year Plan.

- (A) II, IV, III, I,
- (B) IV, II, I, III,
- (C) II, IV, I, III,
- (D) IV, I, II, III.

Ans :

(B) IV, II, I, III

China's economic timeline began with the First Five Year Plan in 1953 (IV). This was followed by the Great Leap Forward in 1958 (II), which aimed at rapid industrialization. The Great Proletarian Cultural Revolution occurred between 1966 and 1976 (I). Finally, modern Economic Reforms were introduced in 1978 (III) by Deng Xiaoping.

25. Read the following statements carefully:

Statement 1 : During the British rule in India, the export surplus was utilised to import of invisible items from Britain.

Statement 2 : Indians paid for the expenses incurred by an office set up by the colonial government in Britain.

In the light of above statements, choose the correct option from the following:

- (A) Statement 1 is true and statement 2 is false.
- (B) Statement 1 is false and statement 2 is true.
- (C) Both statements 1 and 2 are true.
- (D) Both statements 1 and 2 are false.

Ans :

(C) Both statements 1 and 2 are true.

During the colonial period, India's trade surplus was used to finance "Home Charges." This included the maintenance of the India Office in London and payments for "invisible" services like shipping and insurance provided by British firms. Instead of benefiting the Indian economy, these funds essentially facilitated a massive drain of wealth.

26. Read the following statements : Assertion (A) and Reason (R), Choose the correct option from those given below:

Assertion (A) : Education facilitates the assimilation of knowledge and competencies. It also fosters inventive capacities and enhances the aptitude to integrate advance technology.

Reason (R) : Education plays a pivotal role in transforming cognitive perspectives and serves as a catalyst for the economic advancement of a nation.

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is true.

Ans :

(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

Education is a fundamental source of human capital formation. By broadening a person's cognitive horizons and technical skill set, it enables them to better understand and implement modern technologies. Since this individual growth is what collectively drives the nation's economic progress, the reason provided perfectly explains why education facilitates such competencies.

27. "Sustainable development refers to the development that meets the need of the present generation without compromising the ability of the future generations, to meet their own needs." The above mentioned definition has been given by ____.

(Choose the correct option to fill in the blank)

- (A) United Nations Conference on Environment and Development
- (B) United Nations Committee on Environment and Development

- (C) United Nations Committee on Protection of Environment
- (D) United Nations Conference on Protection of Environment

Ans :

- (A) United Nations Conference on Environment and Development

This famous definition was originally presented in the Brundtland Report (Our Common Future) in 1987. It was later formally adopted and popularized globally by the United Nations Conference on Environment and Development (UNCED), also known as the Rio Earth Summit, to emphasize the balance between economic growth and environmental preservation.

28. (A) During the 'Mann ki Baat' program aired on 29th June, 2025, Prime Minister shared that World Health Organisation (WHO) has declared India as a Trachoma free (an eye disease). This achievement, he shared, is a result of sustained efforts in health care, sanitation, awareness and medical access. In the light of the above statement, explain how investments in health care contributes to a nation's development. Support your answer with valid arguments.

or

- (B) "Employment within the formal sector ensures better income and social benefits as against the informal sector." Defend or refute the above statement with valid reason and example.

Ans :

- (A) Investment in healthcare is a vital component of human capital formation and serves as a primary driver of national development. A healthy workforce is inherently more productive because physical and mental well-being directly enhance a worker's efficiency and stamina. When the government invests in sanitation, medical access, and disease eradication—as seen with the Trachoma-free milestone—it reduces the prevalence of illness, which in turn minimizes absenteeism and prevents the loss of labor days in the production process. Furthermore, healthcare investments lead to a higher life expectancy and a better quality of life for the citizens. Healthy individuals are more capable of acquiring education and skills,

creating a synergy that accelerates economic growth. From a social perspective, affordable medical access prevents families from falling into poverty due to high out-of-pocket health expenditures. Therefore, a robust healthcare system ensures a steady supply of energetic labor, reduces the dependency ratio, and creates a more resilient and prosperous economy capable of long-term sustainable development.

or

- (B) I defend the given statement as employment in the formal sector is significantly more secure and beneficial than in the informal sector. In the formal sector, workers enjoy regular monthly salaries, structured working hours, and essential social security benefits such as provident fund, gratuity, and health insurance. These benefits provide a safety net that is entirely absent in the informal sector, where workers often face low wages, job insecurity, and no legal protection. For example, a regular employee in a registered commercial bank has a fixed income and retirement benefits, whereas a casual construction laborer or a street vendor lacks these protections and faces income fluctuations based on daily availability of work.
29. "In the late 1970's China's population growth rate has sharply declined as compared to India." Elucidate the reasons and impacts of this situation.

Ans :

The primary reason for the sharp decline in China's population growth rate was the stringent implementation of the "One-Child Policy" introduced in 1979. While India continued with voluntary family planning measures, China's mandatory policy led to a rapid demographic transition. This had a dual impact; on the positive side, it helped China reduce the pressure on its resources and successfully lowered the dependency ratio in the short term, facilitating faster economic growth. However, in the long term, it has led to a significant demographic imbalance, resulting in a rapidly aging population and a shrinking labor force, which now poses a major challenge for its future economic sustainability.

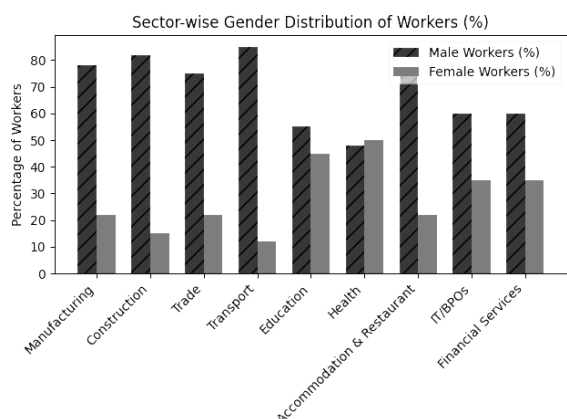
30. "At the time of independence, both India and Pakistan inherited similar colonial economic structures. Both the nations adopted many similar economic planning strategies."

Explain any two such similarities in the developmental path of India and Pakistan.

Ans :

At the time of independence, both India and Pakistan adopted similar development strategies. Both followed a mixed economy system, where public and private sectors co-existed, with the government controlling key industries. They also adopted centralised planning through Five-Year Plans to achieve economic growth, self-reliance, and industrialization. These strategies reflected their common colonial legacy and similar economic challenges .

31. (A) State the meaning of 'Disguised Unemployment'.
(B)



In the light of the given chart, analyses the gender-wise sectoral distribution of workers.

Ans :

- (A) Disguised Unemployment refers to a situation where more workers are employed than actually required, and some workers have zero or negligible contribution to output. Even if these extra workers are removed, total production remains unchanged. It is commonly found in the agricultural sector.
- (B) The chart reveals a significant gender disparity across various sectors of the Indian economy. Male workers dominate sectors requiring intensive physical labor and technical infrastructure, such as construction, transport, and manufacturing, where their percentage of participation is remarkably

high. In contrast, female workers show a relatively higher presence in social and service-oriented sectors like health and education compared to their involvement in technical or heavy industrial roles. While the percentage of female workers in the health sector is nearly equal to that of males, their overall representation remains lower across most high-paying modern sectors like financial services and IT/BPOs, indicating a continued need for gender-inclusive policies in the workforce.

32. (A) State and explain any two features which were observed in the demographic profile of India during the British rule.
or
(B) "The British sought to achieve their vested interest through their policies of infrastructural development in India."
Do you agree with the given statement?
Justify your answer with valid explanation.

Ans :

- (A) During British rule, India's demographic profile showed the following features:
1. High Birth Rate and High Death Rate: Both birth and death rates were very high, resulting in a low rate of population growth. Poor medical facilities, famines, and diseases increased mortality.
 2. Low Life Expectancy: Life expectancy was very low (around 32 years) due to poor healthcare, malnutrition, and unhygienic living conditions.
- or
- (B) Yes, I agree with the statement.
The British developed infrastructure like railways, roads, ports, and telegraphs primarily to serve their own interests. Railways were used to transport raw materials from interior regions to ports for export and to bring finished goods into Indian markets. Roads and ports facilitated trade and administrative control, while telegraphs helped in maintaining law and order. Thus, infrastructure development mainly benefited British economic and political interests rather than India's development..

33. Read the following text carefully:
To ensure inclusive and quality education for all, the Indian government has launched several important schemes. These schemes aimed at

improving access, equity and learning outcomes, especially among disadvantaged group.

The Right to Education (RTE) Act, passed by the India Parliament on August 4, 2009, guarantees free and compulsory education to every child between 6-14 years of age. It ensures that all children have access to education in neighbourhood schools, until they complete elementary education. Another key initiative is Sarva Siksha Abhiyan (SSA). It was introduced in 2001. It is one of India's flagship programmes for the Universalisation of Elementary Education. Digital India Campaign, launched on July 1, 2015, focuses on transforming India into a digitally empowered society by improving mobile and internet connectivity, particularly in rural and remote regions. This initiative supports digital learning & access to educational resources. Through these initiatives, the government strives to create an equitable, accessible & quality driven educational environment for all children, laying a strong foundation for national development. On the basis of the given text and common understanding, answer the following questions :

- (i) Identify, which law guarantees free and compulsory education upto the age of 14 years. Explain, how does it help in enhancing access to education.
- (ii) In your opinion, how has the increase in public spending on education contributed to India's social and economic transformation? Support your answer with valid arguments.

Ans :

- (i) The law that guarantees free and compulsory education to every child between the ages of 6 and 14 years is the Right to Education (RTE) Act, passed by the Indian Parliament in 2009. This Act helps in enhancing access to education by making it a fundamental right, thereby shifting the responsibility onto the state to ensure that every child has a school in their neighborhood. It eliminates the financial burden on parents by providing education free of cost in government schools and mandating a percentage of seats in private schools for children from disadvantaged groups. By removing economic and geographical barriers, the RTE Act ensures that marginalized sections of society can participate in the formal education system, ultimately improving the enrollment and literacy rates in the country.

- (ii) The increase in public spending on education has acted as a catalyst for India's social and economic transformation by fostering the creation of a high-quality human capital base. Economically, higher expenditure on schools and universities has equipped the workforce with better technical skills and literacy, which directly translates into increased labor productivity and higher national income. This investment has allowed India to transition into a service-led economy, particularly in the IT and software sectors. Socially, education spending has promoted greater social awareness, improved health standards, and helped in reducing gender inequality by encouraging female literacy. As individuals become more educated, they are better able to make informed decisions regarding family welfare and participate more effectively in the democratic process, leading to a more inclusive and progressive society.

NODIA

31. (A) (i) Discuss any two objectives which were aimed at, by the introduction of Financial sector reforms by the Government of India during economic reforms of 1991.
- (ii) Mr. Ravi, an IT entrepreneur from Bengaluru, observed that several MNC's prefer India as their outsourcing Hub for services like software development, customer support, data management etc. His friend Priya believes this is due to certain inherent advantages of the Indian economy.

In your opinion, state and explain any two factors that make India a preferred outsourcing destination.

or

- (B) (i) "Although the subsidies play a crucial role in giving incentive to farmers to adopt modern agricultural technologies, they simultaneously impose a significant fiscal strain on the resources of the Government." Justify the given statement with valid argument.
- (ii) "The strategic sale of a public sector undertaking and the minority sale of its equity are both established instruments of disinvestment." Defend or refute, the given statement with valid arguments.

Ans :

(A)

- (i) One of the primary objectives of the financial sector reforms introduced in 1991 was to change the role of the Reserve Bank of India from a rigid regulator to a facilitator of the financial system. This shift allowed commercial banks more autonomy to make their own decisions regarding interest rates and credit allocation, fostering a more market-driven environment. A second major objective was to encourage greater competition and efficiency within the banking system by allowing the entry of private sector banks and foreign banks. This move was intended to modernize the banking infrastructure, improve the quality of customer services, and bring international best practices to the Indian financial landscape, ultimately making the domestic capital market more robust and globally integrated.
- (ii) One critical factor that makes India a preferred outsourcing destination is the availability of a vast pool of skilled, English-speaking professionals. India's education system produces a large number of engineers and technicians every year who are proficient in the global language of business, making communication seamless for multinational corporations. Another significant factor is the low cost of labor compared to developed nations. Companies find it highly cost-effective to outsource high-end technical tasks and data management services to India because they can access high-quality work at a fraction of the wages they would pay in their home countries. This combination of technical expertise and economic efficiency provides India with a distinct competitive advantage in the global outsourcing market.

or

(B)

- (i) Agricultural subsidies are essential for encouraging farmers to adopt high-yielding variety seeds, fertilizers, and modern machinery, especially in a country like India where the majority of farmers have low purchasing power. These subsidies reduce the financial risk of new technologies and help ensure national food security. However, they also impose a heavy fiscal strain because a massive portion of the government's revenue is diverted toward sustaining these low prices,

which increases the fiscal deficit. Over time, subsidies can lead to the inefficient use of resources, such as the over-application of fertilizers or excessive groundwater extraction, as farmers do not pay the true market cost. This creates a difficult balancing act for the government between supporting rural livelihoods and maintaining fiscal discipline for broader economic stability.

- (ii) I defend the statement as both strategic sale and minority sale are recognized methods used by the government to reduce its stake in Public Sector Undertakings (PSUs). A minority sale involves selling a small portion of government equity—usually less than 50 percent—to the general public or institutional investors while the government retains majority ownership and management control. This is often done to raise immediate revenue and encourage transparency. In contrast, a strategic sale involves the transfer of a large block of shares, often 51 percent or more, along with the transfer of management control to a private entity. This method is aimed at bringing in private sector efficiency and modern technology to revitalize the undertaking. Both instruments serve the overarching goal of disinvestment by mobilizing resources and reducing the government's direct involvement in non-essential industrial production.

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CBSE EXAM PAPER 2025

CLASS XII

ECONOMICS

Time : 3 Hours

Max. Marks : 80

General Instructions :

1. This question paper contains 34 questions. All questions are compulsory.
 2. This question paper contains two sections :
Section A – Macro Economics
Section B – Indian Economic Development
 3. This question paper contains 20 Multiple Choice Type Questions of 1 mark each.
 4. This question paper contains 4 Short Answer Type Questions of 3 marks each to be answered in 60 to 80 words.
 5. This question paper contains 6 Short Answer Type Questions of 4 marks each to be answered in 80 to 100 words.
 6. This question paper contains 4 Long Answer Type Questions of 6 marks each to be answered in 100 to 150 words.
 7. Attempt all parts of a question together.
 8. In addition to this, NOTE that a separate question has been provided for Visually Impaired candidates in lieu of questions having visual inputs, map etc. Such questions are to be attempted by Visually Impaired candidates only.
 9. There is no overall choice in the paper. However, an internal choice has been provided in few questions. Only one of the choices in such questions has to be attempted.
-

SECTION-A

(Macro Economics)

1. As the Banker to the Bank, Reserve Bank of India performs all functions except _____.
(A) Purchase and sale of securities on behalf of general public
(B) Maintaining current account for Commercial Banks
(C) Clearing and settlement of Interbank transactions
(D) Facilitating governmental transactions

Ans :

(A) Purchase and sale of securities on behalf of general public

The Reserve Bank of India acts as the banker to commercial banks and the government by providing services like maintaining current accounts and facilitating interbank settlements. However, it does not undertake retail banking functions, such as purchasing or selling securities on behalf of the general public. Thus, indeed, (A) is correct.

2. Suppose for an economy, autonomous consumption stands as ₹100 crore and total consumption is ₹130 crores. The value of induced consumption would be ₹_____ crore.

- (A) 30
(B) 80
(C) 100
(D) 130

Ans :

(A) 30

Autonomous consumption is the base level of consumption that occurs regardless of income. Here, with total consumption at ₹130 crores and autonomous consumption at ₹100 crores, the induced portion is the difference, ₹30 crores. Therefore, induced consumption exactly equals total consumption minus autonomous consumption, confirming option (A) as the correct answer, indeed.

3. Value Addition = _____ – Value of Intermediate Consumption.
(i) Domestic sales
(ii) Sales – change in stock
(iii) Value of output
(iv) (Number of units produced) × (Price per unit)

Options:

- (A) (i) and (ii)
- (B) (ii) and (iii)
- (C) (ii), (iii) and (iv)
- (D) (iii) and (iv)

Ans :

- (D) (iii) and (iv)

Value addition is calculated as the value of output minus the value of intermediate consumption. The term “value of output” can be directly stated or derived by multiplying the number of units produced by the price per unit. Therefore, expressions (iii) and (iv) correctly represent this measure, making option (D) correct.

4. Read the following statements: Assertion (A) and Reason (R). Choose one of the correct options given below:

Assertion (A): In case of public goods no one can be excluded from enjoying the benefits.

Reason (R): Public goods are non-rivalrous and non-excludable in nature.

- (A) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is true.

Ans :

- (A) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)

Public goods are defined by two key characteristics: non-rivalry and non-excludability. The assertion that no one can be excluded from enjoying public goods is true because of non-excludability, which is precisely explained by the reason provided. Hence, both the assertion and reason are correct, and the reason explains the assertion, making (A) correct, absolutely correct.

5. In the Keynesian Economics, _____ starts from the origin and is always drawn at an angle of 45° .
- (A) Consumption curve
 - (B) Aggregate demand curve
 - (C) Reference line
 - (D) Investment curve

Ans :

- (C) Reference line

In Keynesian economics, the 45° line, known as the reference line, is drawn from the origin. It represents the equilibrium condition where aggregate income equals aggregate expenditure. This graphical tool is fundamental for analyzing income determination, thereby confirming option (C) as correct, without exception.

6. Identify, which of the following is not to be considered while estimating Revenue Deficit of a country.

- (A) Wages and salaries paid by the government
- (B) Interest payments made by the Central Government
- (C) Direct Tax Collection
- (D) Expenditure incurred on construction of flyover

Ans :

- (D) Expenditure incurred on construction of flyover

Revenue deficit is determined by comparing revenue receipts with revenue expenditures, which include current expenses like wages and interest payments. Capital expenditure, such as spending on flyover construction, is treated as an investment rather than a recurring expense. Therefore, flyover construction is excluded, making option (D) correct.

7. The monetary policy is formulated by the _____ in the Indian economy.

- (A) Central Government
- (B) State Governments
- (C) Reserve Bank of India
- (D) World Bank

Ans :

- (C) Reserve Bank of India

The formulation of monetary policy in India is the exclusive responsibility of the Reserve Bank of India. The RBI regulates the country's money supply, interest rates, and liquidity, independent of the central or state governments. This central role in monetary management confirms option (C) as the correct answer.

8. To arrive at the value of equilibrium level of income, there must exist an equality between ex-ante _____ and ex-ante _____.

- (i) Aggregate Demand, Aggregate Supply
- (ii) Aggregate Demand, Savings
- (iii) Aggregate Demand, Investment
- (iv) Savings, Investment

Options:

- (A) (i) and (ii)
- (B) (i) and (iv)
- (C) (ii) and (iii)
- (D) (iii) and (iv)

Ans :

- (B) (i) and (iv)

In Keynesian theory, equilibrium income is achieved when planned aggregate expenditure equals actual output, meaning aggregate demand equals aggregate supply. Simultaneously, planned savings must equal planned investment to avoid unintentional inventory changes. Therefore, both conditions—(i) aggregate demand equals aggregate supply and (iv) savings equal investment—must hold, validating option (B)

9. Read the following statements: Assertion (A) and Reason (R). Choose one of the correct options given below:

Assertion (A): If the value of Marginal Propensity to Save is 0.5, Marginal Propensity to Consume will be equal to Marginal Propensity to Save.

Reason (R): Sum of Marginal Propensity to Consume and Marginal Propensity to Save always equals to unity.

- (A) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is true.

Ans :

- (A) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)

The marginal propensity to consume (MPC) and the marginal propensity to save (MPS) always sum to one. Hence, if the MPS is 0.5, then MPC must also be 0.5. This direct mathematical relationship confirms both the assertion and the reason, making option (A) correct.

10. The budget under, which the government may spend an amount equal to the revenue it collects is referred as _____ Budget.

- (A) Surplus
- (B) Deficit
- (C) Balanced
- (D) Deflationary

Ans :

- (C) Balanced

A balanced budget occurs when government expenditure exactly equals government revenue, implying no deficit or surplus exists. In this case, the government spends an amount equal to its revenue collections. This fiscal scenario, representing prudent financial management, confirms option (C) as the correct description of such a budget.

11. (a) “The government generally levies higher Goods and Services Tax (GST) on socially undesirable products like cigarettes, tobacco, liquor etc.” Identify and explain the indicated government budget objective in the above statement.

or

- (b) Two friends Ramesh (a software engineer) and Pihu (a bakery owner) are discussing their contribution to the nation’s economy through tax payments. Ramesh earns ₹ 8,00,000 per year, which makes him liable to pay income tax. Pihu pays Goods and Service Tax (GST) on the sale of cakes and pastries.

On the basis of the given text, identify whether Ramesh is paying a direct tax or an indirect tax. Explain valid differences between two types of taxes.

Ans :

- (a) The statement indicates the use of a “sin tax” as a government budget objective. Sin taxes are higher levies on socially undesirable goods to discourage their consumption, correct negative externalities, and promote public health and social welfare. By increasing the cost of items like cigarettes, tobacco, and liquor, governments aim to reduce their consumption, lessen associated healthcare and social costs, and raise additional revenue that can be allocated towards mitigating the adverse impacts of these products. Overall, it serves purposes.

or

- (b) Ramesh is paying a direct tax, specifically income tax. Direct taxes are levied directly on an individual’s income or wealth and cannot be passed on to someone else. In contrast, indirect taxes such as GST are imposed on goods and services and are collected by sellers, who then pass the cost onto consumers. Direct taxes are generally

progressive, meaning higher incomes incur a higher tax burden, while indirect taxes tend to be regressive, affecting lower-income groups proportionately more.

12. Define Real Gross Domestic Product. How is it different from Nominal Gross Domestic Product?

Ans :

Real Gross Domestic Product (GDP) measures an economy's output adjusted for inflation, using constant prices from a selected base year. This adjustment isolates changes in the quantity of goods and services produced, offering a clearer picture of economic growth over time. In contrast, Nominal GDP is calculated using current market prices, so it reflects both changes in production and fluctuations in price levels. Consequently, while Nominal GDP can be influenced by inflation or deflation, Real GDP provides a more accurate assessment of an economy's true performance.

13. (a) Justify the following statements with valid arguments:

- Money supply in an economy is an example of a stock variable.
- The Central Bank provides several Banking services to the government.

or

- (b) Assuming for a hypothetical economy, Central Bank increases the Reserve Ratio from 20% to 25% and the total primary deposits stand at ₹ 1,000. Explain the effect of rise in Reserve Ratio on credit creation by commercial banks.

Ans :

- (a) (i) **Money Supply as a Stock Variable :** Money supply is a stock variable because it is measured at a specific point in time. It represents the total money available in an economy at a given moment, offering a snapshot of liquidity. Unlike flow variables such as income or expenditure, which measure changes over a period, money supply captures the current state of money circulation.
- (ii) **Central Bank's Banking Services to the Government :** The Central Bank provides several banking services to the government. It maintains government accounts, facilitates transactions, offers loans, and manages public debt. These services promote fiscal stability and liquidity, ensuring efficient public

financial management and supporting overall economic operations, thereby strengthening national development.

or

- (b) An increase in the reserve ratio from 20% to 25% significantly reduces the money multiplier effect, thereby curbing credit creation by commercial banks. With primary deposits of ₹1,000, the initial multiplier at 20% ($1/0.20$) allowed up to ₹5,000 in credit. When the reserve ratio increases to 25%, the multiplier falls to $1/0.25$ or 4, reducing potential credit creation to ₹4,000. This means banks must retain a larger fraction of deposits as reserves, leaving less available for lending. Consequently, the overall supply of credit contracts, which can slow economic activity and reduce investment opportunities. This policy move tightens the money market.

- (a) On the basis of the given image (showing inflation in India), explain the steps which may be taken by the Government of India to control the indicated macroeconomic issue.



- (b) Define 'Open Market Operations'.

Ans :

- (a) To control inflation, the Government of India can reduce unnecessary public expenditure, thereby lowering the fiscal deficit. Additionally, it may increase direct or indirect taxes to curb excessive demand. Strengthening supply chains through infrastructural development and streamlined regulations can reduce production bottlenecks, stabilizing prices. Encouraging foreign investment and domestic

manufacturing fosters competition, further easing inflationary pressures. Ensuring effective coordination with the Reserve Bank of India for prudent monetary policies, including higher interest rates, helps control rising prices, fostering economic stability.

- (b) Open Market Operations refer to the buying and selling of government securities by a central bank in the open market to regulate the money supply and interest rates in the economy.

15. Suppose for an economy, government proposes investment projects for construction of expressways with an incremental investment of ₹2400 crore. Assuming, 80% of increase in income is spent on consumption.

Estimate the following on the basis of above information:

- (a) Change in income (ΔY)
(b) Change in consumption (ΔC)

Ans :

- (a) Change in Income (ΔY) : Using the investment multiplier formula, $1/(1 - MPC)$, with $MPC = 0.8$, the multiplier is $1/0.2 = 5$. Multiplying the incremental investment of ₹2400 crore by 5 gives $\Delta Y = 5 \times 2400 = ₹12000$ crore.
(b) Change in Consumption (ΔC): Since 80% of the income increase is spent on consumption, the induced change in consumption is $\Delta C = MPC \times \Delta Y = 0.8 \times 12000 = ₹9600$ crore.

16. (a) (i) On the basis of the data given below, estimate the value of Domestic Income (NDP_{FC})

S. No.	Items	Amount (₹ in crore)
(1)	Private final consumption expenditure	2,000
(2)	Government final consumption expenditure	1,500
(3)	Gross domestic fixed capital formation	1,000
(4)	Addition to stock	400
(5)	Consumption of fixed capital	50
(6)	Net factor income from abroad	100
(7)	Net indirect Taxes	200
(8)	Net Exports	700

- (ii) Differentiate between factor income and transfer income.

or

- (b) (i) “In a two sector economy, National Income is always less than Domestic Income.” Defend or refute the given statement with valid reasons.
(ii) Gauhar has recently completed her fashion designing studies and started a boutique. To produce dresses for sale, she purchased various materials, including a sewing machine, fabric, buttons and thread. These items are essential for producing the dresses. Classify the material purchased by Gauhar as Final or Intermediate goods, giving valid reasons in support of the classifications.

Ans :

- (a) (i) Estimation of Domestic Income (NDP_{FC}):
Using the expenditure approach, first calculate GDP (market prices):
Private final consumption + Government final consumption = $2000 + 1500 = 3500$
Gross fixed capital formation + Addition to stock = $1000 + 400 = 1400$
Net Exports = 700
Thus, $GDP = 3500 + 1400 + 700 = 5600$ crore.

Next, adjust for net indirect taxes:

$GDP \text{ at factor cost} = 5600 - 200 = 5400$ crore
Then, subtract depreciation (consumption of fixed capital):

$$NDP_{FC} = 5400 - 50 = 5350 \text{ crore}$$

- (ii) Differentiate between Factor Income and Transfer Income:

Aspect	Factor Income	Transfer Income
Definition	Income earned by factors of production for contributing to economic output.	Income received without a corresponding productive contribution.
Source	Derived from wages, interest, rent, and profits from labor, capital, and land.	Comes from government redistributions like pensions, subsidies, and welfare.

Basis of Payment	Based on active participation in production.	Granted regardless of current production or work effort.
Examples	Salaries, dividends, rent, interest payments.	Unemployment benefits, social security payments, and other welfare transfers.

or

- (b) (i) Refutation: In a two-sector economy, only households and firms exist and there is no foreign sector. National Income (NI) is defined as Domestic Income (DI) plus net factor income from abroad. Since net factor income from abroad is zero in a two-sector economy, NI equals DI. Therefore, the statement that “National Income is always less than Domestic Income” is incorrect.

- (ii) Classification of Gauhar’s Purchases:

1. Sewing Machine : This is a capital good used repeatedly over multiple production cycles. It is classified as a final good, reflecting investment expenditure rather than intermediate consumption.
2. Fabric, Buttons, and Thread : These items are consumed during the production process and their value is embedded in the final dresses. Thus, they are classified as intermediate goods.

17. Read the following text carefully:

Balance of Payments (BoP) systematically summarises the economic transactions of an economy with the rest of the world, over a given period of time.

The BoP can be broadly divided into two accounts namely:

- Current account
- Capital account

The current account measures the transfer of goods, services, income, and transfers between an economy and rest of the world. The current account may be sub-divided into merchandise account and invisible account.

Merchandise account consists of transactions related to export and import of goods.

In the invisible account, there are three broad categories:

- Non-factor services such as travel, transportation, insurance etc.
- Transfers which do not involve any value in exchange.
- Income which includes compensation of employees and investment income.

The capital account reflects the net changes in financial claims on rest of the world.

The capital account can be broadly broken up into two categories:

- Non-debt flows such as direct and portfolio investments.
- Debt flows such as external assistance, commercial borrowings, non-resident deposits etc.

The sum of the two accounts indicates the overall balance, which could be either be in surplus or deficit. The movement in overall balance is reflected in changes in international reserves of the country.

Source: <https://mospi.gov.in/109-balance-payments> (adopted and modified)

On the basis of the given text and common understanding, answer the following questions:

- (a) Define Balance of Payments.
- (b) Differentiate between the two accounts of Balance of Payments.
- (c) Give the meaning of Balance of Payments deficit with formula.

Ans :

- (a) The Balance of Payments (BoP) is a systematic record of all economic transactions between a country and the rest of the world during a specified period. It summarizes both inflows and outflows of funds related to trade, services, income, and financial transfers.
- (b) The BoP is divided into two main accounts: the Current Account and the Capital Account. The Current Account covers transactions involving goods, services, income, and unilateral transfers, including the merchandise account (exports and imports of goods) and the invisible account (services, transfers, and investment income). In contrast, the Capital Account records changes in the country’s financial assets and liabilities, covering non-debt flows such as direct and portfolio investments and debt flows like commercial borrowings and external assistance.
- (c) A BoP deficit arises when total outflows exceed inflows, represented by: $\text{BoP Deficit} = (\text{Current Account} + \text{Capital Account}) < 0$.

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This situation indicates that the economy is spending more on international transactions than it is earning, thereby necessitating adjustments in external financing.

SECTION – B

(Indian Economic Development)

18. _____ is based on the idea that education and health are integral to human well-being.

(A) Human Resource
(B) Human Development
(C) Human Capital
(D) Economic Development

Ans :

(B) Human Development

Human development focuses on enhancing people's well-being by improving education, health, and living standards. It goes beyond mere economic productivity or resource management, addressing broader human capabilities. This approach integrates social, cultural, and economic dimensions, making it integral to overall human progress and quality of life.

19. In recent years, all the adults are encouraged to open bank accounts as a part of a scheme known as _____.

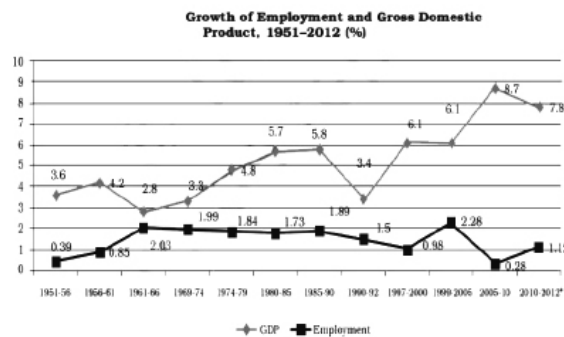
(A) Jan-Dhan Yojana
(B) Jan-Aushadhi Yojana
(C) Jan-Soochna Yojana
(D) Jan-Arogya Yojana

Ans :

(A) Jan-Dhan Yojana

Jan-Dhan Yojana is a flagship financial inclusion initiative launched by the Government of India. It encourages all adults to open bank accounts, thereby providing them access to formal financial services such as credit, savings, and insurance. This initiative aims to empower economically weaker sections and promote financial security nationwide.

20. The given chart indicates the problem of _____ in the Indian Economy post 1990-92.



- (A) Informalisation of Workforce
(B) Casualisation of Workforce
(C) Jobless Growth
(D) Formalisation of Workforce

Ans :

(C) Jobless Growth

Post the 1990-92 economic reforms, India experienced robust GDP growth without a proportional increase in employment opportunities—a phenomenon known as jobless growth. The chart illustrates this disconnect between rising output and stagnant job creation, highlighting that economic expansion did not translate into sufficient labor market absorption.

21. Read the following statements carefully:
Statement 1: Environmental concerns of waste generation and pollution have become critical, due to reversal of demand and supply relationship.
Statement 2: Environmental crisis happens, when the rate of resource extraction is less than that of regeneration of resource.

In the light of the given statements, choose the correct option from the following:

- (A) Statement 1 is true and Statement 2 is false.
(B) Statement 1 is false and Statement 2 is true.
(C) Both statements 1 and 2 are true.
(D) Both statements 1 and 2 are false.

Ans :

(A) Statement 1 is true and Statement 2 is false
Statement 1 correctly notes that environmental concerns have escalated due to imbalances in waste generation versus the environment's capacity. In contrast, Statement 2 is incorrect because environmental crises occur when resource extraction exceeds natural regeneration, not when extraction is lower. Thus, only Statement 2 is false.

22. _____ of agriculture refers to production of crops for sale in the open market rather than for self consumption purpose.

(A) Commercialisation
(B) Diversification
(C) Digitisation
(D) Modernisation

Ans :

(A) Commercialisation

Commercialisation in agriculture refers to shifting the focus from self-sustenance to market-oriented production. Farmers produce crops primarily for sale rather than personal consumption. This transformation, driven by market forces and policy reforms, enhances income opportunities and stimulates broader economic development, thereby marking a significant change in production orientation.

23. Read the following statements carefully:

Statement 1 : In 1978, commune lands were divided into small plots to the individual households for cultivation.

Statement 2 : Under commune system, professionals were sent to work and learn from the country side.

In the light of the given statements, choose the correct option from the following:

(A) Statement 1 is true and Statement 2 is false.
(B) Statement 1 is false and Statement 2 is true.
(C) Both statements 1 and 2 are true.
(D) Both statements 1 and 2 are false.

Ans :

(C) Both statements 1 and 2 are true.

Both statements are correct. The commune system involved redistributing lands, where communal fields were divided among households for individual cultivation, marking a significant shift in agricultural practices. Additionally, the state often deployed professionals to rural areas to work and learn directly from the agricultural environment, facilitating skill transfer and practical experience.

24. Identify the options that emphasize the role of information and technology.

(i) Achieving sustainable development
(ii) Attainment of food security
(iii) Disseminates information regarding emerging technologies.

Options:

(A) Only (i)

(B) Only (ii)
(C) (i) and (ii)
(D) (i), (ii) and (iii)

Ans :

(D) (i), (ii) and (iii)

All three statements highlight areas where information and technology are crucial. Sustainable development and food security increasingly rely on advanced information systems and technological innovations. Moreover, the dissemination of information regarding emerging technologies directly underscores the role of IT. Collectively, these aspects emphasize technology's significance, validating option (D).

25. Read the following statements: Assertion (A) and Reason (R). Choose one of the correct options given below:

Assertion (A): Under the land reforms, Indian government fixed the minimum land size which could be owned by an individual.

Reason (R): The purpose of land ceiling was to avoid the concentration of land ownership in a few hands.

(A) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Ans :

(D) Assertion (A) is false, but Reason (R) is true. Indian land reforms primarily imposed a ceiling on land holdings to prevent concentration, not a minimum size. Therefore, the assertion that a minimum land size was fixed is incorrect. However, the reason accurately reflects the purpose of land ceilings—to avoid excessive concentration of land ownership—making it true and supporting option (D).

26. _____ are the people who operate their own farms / enterprises.

(A) Hired Workers
(B) Casual Wage Workers
(C) Regular Salaried Employees
(D) Self-Employed

Ans :

(D) Self-Employed

Self-employed individuals operate their own farms or enterprises and make independent decisions regarding production and management. Unlike hired workers, casual wage workers, or salaried employees, they assume both the risks and rewards of their ventures. This autonomy in decision-making and income generation clearly characterizes self-employment, confirming option (D).

27. Agricultural marketing is a process that involves the _____ of agricultural commodities.

- (i) Privatisation
- (ii) Processing
- (iii) Assembling
- (iv) Grading

Options:

- (A) (i) and (ii)
- (B) (ii) and (iii)
- (C) (i), (ii) and (iii)
- (D) (ii), (iii) and (iv)

Ans :

- (D) (ii), (iii) and (iv)

Agricultural marketing involves post-harvest activities that add value to produce. It includes processing commodities into marketable forms, assembling products for distribution, and grading them to meet quality standards. Privatisation, however, is a policy measure, not an intrinsic marketing process. Hence, only processing, assembling, and grading are integral, making (D) correct.

28. (a) Medhya and Danish both had their own farms. Medhya invested in a few agricultural courses, learnt modern farming techniques and trained her labourers on best practices related to soil fertility, crop management, pest control etc.

Whereas, Danish invested heavily in, by purchasing advanced farming machinery, irrigation systems and high quality seeds.

Do you agree that, Danish had made investment in human capital?

Give valid reason in support of your answer.

or

- (b) "Expenditure on preventive medicine, curative medicine and social medicine helps in building human capital and economic development."

Do you agree with the given statement? Give valid arguments in support of your answer.

Ans :

- (a) Danish did not invest in human capital. Human capital refers to investments in education, skills, and knowledge that enhance the abilities of people. Danish's expenditure on advanced farming machinery, irrigation systems, and high-quality seeds represents physical capital investment. In contrast, Medhya's focus on agricultural courses, modern farming techniques, and training laborers reflects human capital development. Therefore, Danish's investments, although crucial for increasing production efficiency, are categorized as investments in physical assets rather than in human capital.

or

- (b) I agree with the statement. Spending on preventive, curative, and social medicine is a crucial investment in human capital because it improves overall health and well-being. Better health leads to higher productivity, reduced absenteeism, and enhanced cognitive development, which in turn bolster educational outcomes and labor efficiency. A healthy population can contribute more effectively to economic development, driving innovation and growth. Therefore, such medical expenditures are not just social necessities but also strategic investments that yield significant economic returns over time.

29. Briefly explain the dual pricing policy adopted by China.

Ans :

China's dual pricing policy involves maintaining two separate pricing systems for certain goods. The government sets a fixed, often lower, price for domestic consumption to ensure affordability and social stability, while allowing a higher market-determined price for exports. This system enables domestic consumers to access essential commodities at controlled rates, while producers can earn additional revenue from foreign markets, contributing to foreign exchange earnings. Essentially, dual pricing serves as an interim mechanism during economic transition, balancing domestic welfare objectives with the need for international competitiveness and efficient resource allocation.

30. Explain the volume and direction of foreign trade during the British rule.

Ans :

During British rule, foreign trade was structured to serve colonial interests. India became a supplier of raw materials such as cotton, jute, spices, and indigo, which were exported primarily to Britain and its industrial allies. At the same time, India imported British manufactured goods, ranging from textiles to machinery, leading to a one-sided trade pattern. Although the overall volume of trade expanded in absolute terms, it was heavily skewed, resulting in a chronic trade imbalance. The export-import ratio was manipulated to benefit British industries, contributing to deindustrialization in India, a drain of wealth, and limited development of indigenous manufacturing capabilities.

31. On the basis of the given data, compare and analyse the Distribution of workforce and its contribution to Gross Value added in India and China.

Sectoral Share of Employment and GVA (%) in 2018-2019

Sector	Contribution to GVA			Distribution of Workforce		
	India	China	Pakistan	India	China	Pakistan
Agriculture	16	7	24	43	26	41
Industry	30	41	19	25	28	24
Services	54	52	57	32	46	35
Total	100	100	100	100	100	100

Source: Human Development Report 2019: Key Indicators of Asia and Pacific 2019

Ans :

- Agriculture** : India employs a vast workforce (43%) for low GVA (16%), indicating low productivity. China employs fewer (26%) for even lower GVA (7%).
 - Industry** : China shows high industrial productivity (41% GVA from 28% workforce). India's industry is less dominant (30% GVA from 25% workforce).
 - Services** : This sector leads GVA in both nations (India 54%, China 52%). India shows very high productivity here (54% GVA from 32% workforce), while China employs more people in services (46%).
32. (a) "In the recent times through various schemes and policies, the Government of India has

taken vital initiatives to generate employment directly / indirectly."

Justify the statement giving valid arguments.

or

- (b) "Micro credit programmes have been very helpful in supporting rural development and improving livelihoods in India."
Do you agree with the given statement? Give valid reasons in support of your answer.

Ans :

- (a) The Indian government has launched numerous initiatives targeting employment. MGNREGA directly provides guaranteed wage employment in rural areas. Pradhan Mantri Kaushal Vikas Yojana (PMKVY) focuses on skilling the youth, enhancing their employability. Schemes like Mudra Yojana and Startup India promote entrepreneurship, indirectly creating jobs as new businesses grow. Additionally, policies like 'Make in India' and the Production Linked Incentive (PLI) schemes aim to boost manufacturing, leading to job creation in factories. Significant investment in infrastructure also generates substantial direct and indirect employment, validating the government's efforts across various sectors.

or

- (b) Yes, I agree with the statement. Microcredit programs, often facilitated through Self-Help Groups (SHGs), have played a vital role in Indian rural development. They provide essential financial access to the rural poor, particularly women, who often lack collateral required by formal banks. This enables investment in small income-generating activities like farming inputs, livestock rearing, or setting up micro-enterprises. By fostering financial inclusion and supporting grassroots entrepreneurship, microcredit empowers individuals, improves household incomes, and contributes significantly to enhancing livelihoods and reducing poverty in rural communities across India.

33. (a) (i) "To promote green revolution, the Indian government provided fertilizer subsidies to the farmers."
Briefly explain any two arguments in favour of such subsidies.
(ii) As per a news report dated, 8th Oct. 2021, the Government of India sold its entire

100% stake in Air India. Tata Sons, the original founder of Air India won the bid and purchased the airline for ₹18,000 crore.

- (1) Identify the step taken by the Government of India.
 - (2) State any two ways in which identified step can be executed by the government.
- or
- (b) (i) “After 1991, reforms in external sector led to an increase in foreign exchange inflows”. Justify the given statement with valid argument.
 - (ii) “During the planning period, public sector was given a dominant role in Indian Economy.” Justify the rationale behind this step taken by the Government of India.

Ans :

- (a) (i) 1. **Support to Marginal and Small Farmers :** Fertilizer subsidies reduce the cost of production for small and marginal farmers who may not afford fertilizers at market prices. This enables them to increase agricultural productivity and income.
 2. **Increased Agricultural Production :** By making fertilizers affordable, subsidies encourage their use, leading to better crop yields and promoting food security, which was a key goal during the Green Revolution.
 - (ii) 1. Step taken by the Government of India : The government has undertaken disinvestment by selling its entire stake in Air India.
 2. Two ways this step (disinvestment) can be executed by the government:
Public Offering : Selling shares of public sector enterprises to the general public through the stock exchange.
Strategic Sale : Selling a major portion of the government’s shareholding along with the transfer of management control to a private entity, as was done in the case of Air India.
- or
- (b) (i) **Justification :** After 1991, India introduced Liberalisation, Privatisation and Globalisation (LPG) reforms. In the external sector:
 1. Trade policy reforms such as removal of quantitative restrictions and reduction of tariffs made India more open to

international trade.

2. Foreign investment policies were liberalized, allowing higher foreign direct investment (FDI) and foreign institutional investment (FII) in various sectors.

These measures increased investor confidence, encouraged global businesses to invest in India, and as a result, foreign exchange inflows rose significantly, improving the country’s foreign exchange reserves and overall external position.

- (ii) 1. **Lack of Private Sector Capability :** After independence, the private sector lacked the capital and technical expertise to undertake large-scale industrial and infrastructure projects, such as steel plants, railways, and dams. Hence, the government had to take the lead.
2. **Balanced Regional Development and Social Welfare :** The public sector was seen as a tool to ensure equitable development across regions, reduce income inequalities, generate employment, and provide essential services like education, health, and transport — which may not have been priorities for the private sector focused on profit.

34. Read the following text carefully:

Climate change and sustainability of environment are two pressing issues that have captured global attention. In recent years, the world has witnessed a surge in extreme weather events including severe droughts, cloud bursts, floods, land slides, receding coastlines and the alarming melting of arctic ice and Himalayan Glaciers. Wildfires have become more frequent and intense.

In this context, sustainable agriculture emerges as a crucial solution.

This refers to those farming practices that meet today’s requirements while preserving resources for the future generation. This means adopting methods that protect the environment, reduce dependence on chemical inputs, efficiently using water and land and ensuring socio-economic equity for farmers.

On one hand sustainable agricultural practices are necessary, on the other, they are often more expensive to implement compared to conventional methods. Sustainable practices like organic farming, climate-smart technologies, modern irrigation system may seem costly upfront, but they offer long-term benefits by improving

productivity, and environmental stewardship. Without accessible and affordable financing options, the much needed shift to sustainable farming practices will remain a distant dream for many.

Therefore, sustainable finance should not only promote eco-friendly practices but also ensure that financial resources are available to the farmers who need it.

Source: <https://website.vbi.org.in/web/rbi/-/speeches-interview/financing-for-sustainable-agriculture> (adopted and modified)

On the basis of the given text and common understanding, answer the following questions:

- (a) Give the meaning of Sustainable Agriculture.
- (b) “Sustainable Agriculture emerges as a crucial solution to the problem of climate change.”
Do you agree with the given statement? Give valid explanation in support of your answer.
- (c) State any two ways to achieve sustainable development.

Ans :

- (a) Sustainable agriculture refers to farming practices that meet current needs without compromising the ability of future generations to meet theirs. It focuses on protecting the environment, reducing the use of chemical inputs, using land and water efficiently, and ensuring fairness and economic viability for farmers.
- (b) Yes, I agree with the statement. Sustainable agriculture addresses climate change in the following ways:
 1. **Environmental Protection:** It minimizes environmental degradation by reducing the use of chemical fertilizers and pesticides, which lowers soil and water pollution.
 2. **Efficient Resource Use:** It promotes efficient use of land and water through techniques like drip irrigation and crop rotation, conserving essential resources.
 3. **Climate Resilience:** Climate-smart agricultural methods help crops adapt to changing weather patterns, reducing the risk of crop failure.
 4. **Reduction in Emissions:** Organic and sustainable practices help lower greenhouse gas emissions, which are a major contributor to climate change.
- (c) Two ways to achieve sustainable development.
 1. Using renewable energy sources such as solar, wind, and hydro power to reduce

pollution and conserve fossil fuels.

2. Adopting eco-friendly technologies in agriculture and industry that minimize environmental damage and promote efficient resource use.

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CHAPTER 1

NATIONAL INCOME AND RELATED AGGREGATES

SUMMARY

1. MACRO ECONOMICS

It is the study of large scale or aggregate economic variables of an economy.

2. FINAL GOODS

These are those goods which are used either for final consumption or for investment. Their value is included in national income.

3. INTERMEDIATE GOODS

These goods are used either for resale or for further production and are not included in national income.

4. STOCKS

Variables whose magnitude is measured at a particular point of time.

5. FLOWS

Variables whose magnitude is measured over a period of time.

6. INVESTMENT

It is an increase in the stock of capital during a year. It is also called capital formation. Following are the types of investment-

1. Fixed investment: It is an increase in the stock of fixed capital assets of firms during a year.
2. Inventory investment: It refers to change in stock.
3. Net Investment: $\text{Gross investment} - \text{Depreciation}$

7. CAPITAL GOODS

Capital goods are those final goods which are used and help in the process of production of other goods and services, e.g., plant and machinery.

8. CONSUMPTION GOODS OR CONSUMER GOODS

Consumer goods are those goods which are bought by consumers as final goods to satisfy their wants, e.g., durable, non-durable and semi-durable goods.

9. PRODUCER GOODS

It refers to those goods which are used in the process of production of goods and services. These can be further classified as:

1. Intermediate or non-durable goods like raw materials.
2. Capital goods

10. GOODS FOR SELF-CONSUMPTION

These goods are produced by the producers and retained for their own use. It is also called own-account production.

11. DEPRECIATION OR CONSUMPTION OF FIXED CAPITAL

It is a fall in the value of fixed asset due to normal wear and tear, passage of time and expected obsolescence. This concept is used to differentiate between gross and net.

12. FACTOR INCOME (OR PAYMENT)

Payment received in exchange for rendering productive services is called factor income. It is included in national income, e.g., rent, wages, interest and profit.

13. TRANSFER INCOME (OR PAYMENT)

It refers to any income received without providing any good or service in return, e.g., scholarship, old age pension etc.

14. CURRENT TRANSFERS

A transfer made out of current income of the payer and added to the current income of the recipient is called a current transfer, e.g., tax, donations, gifts, etc.

15. CAPITAL TRANSFERS

A transfer made out of wealth or capital of the payer and is added to the wealth or capital of the recipient e.g., capital grants, payment made to people affected by natural calamities etc.

16. NET FACTOR INCOME FROM ABROAD (NFIA)

It is the difference between the factor incomes earned by our residents from abroad and factor income earned by non-residents within our country. It is used to differentiate between national product and domestic product.

17. DOMESTIC (OR ECONOMIC) TERRITORY

It is the geographical territory administered by a government within which persons, goods and capital circulate freely.

The scope of domestic territory covers:

- (i) Political frontiers including territorial waters and air space.
- (ii) Embassies, consulates, military bases etc. located abroad but excluding those located within the political frontiers.
- (iii) Ships, aircrafts etc. operated by the residents between two or more countries.
- (iv) Fishing vessels, oil and natural gas rigs etc. operated by the residents in the international waters or other areas over which the country enjoys the exclusive rights or jurisdiction.

18. NORMAL RESIDENTS OF A COUNTRY

A resident, whether a person or an institution, is one whose centre of economic interest lies in the domestic territory of the country in which he lives.

19. CENTRE OF ECONOMIC INTEREST IMPLIES

- (i) The resident lives or is located within the economic territory.
- (ii) The resident carries out the basic economic activities of earnings, spending and accumulation from that location.

Implication of the above two concepts:

- (i) Domestic Product. Domestic Product is the total production of final goods and services within the domestic territory of the country, irrespective of whether the production units are residents or non-residents.
- (ii) National Product. It is the total production of final goods and services by residents only irrespective of whether the production activities are performed within the domestic territory or outside the domestic territory.

20. INDIRECT TAX

It is a tax whose impact (liability to pay) and incidence (actual burden) lie on different persons, e.g., sales tax, customs duties etc. Imposition of indirect tax increases market price of goods and services.

21. SUBSIDY

These are financial support given by the government to a firm to promote the production of certain commodities. Subsidies reduce market price of goods and services.

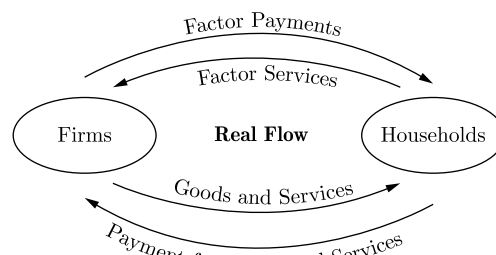
22. NET INDIRECT TAXES (NIT)

Difference between indirect tax and subsidies:
Important Points:

- (i) Gross $\xrightarrow{(- \text{ Depreciation})}$ Net
- (ii) Market Price (MP) $\xrightarrow{(-) [\text{Indirect Tax} + \text{Subsidy}]}$ Factor Cost (FC)
or $(-) \text{ Net Indirect Taxes}$
- (iii) Domestic Product (DP) $\xrightarrow{(+ \text{ NFIA})}$ National Product (NP)

23. CIRCULAR FLOW IN A TWO-SECTOR ECONOMY

Factor Payments



Outer Circle = Money Flow; Inner Circle = Real Flow

24. GROSS DOMESTIC PRODUCT (GDP)

GDP is total monetary value of all the finished goods and services produced within the country's borders in a specified time period, by both citizens and non-citizens.

24.1 Nominal GDP (GDP at current prices)

When the final goods and services produced in a year are valued at current prices (i.e., prices prevailing in that particular year), it is called Nominal GDP.

24.2 Real GDP (GDP at constant prices)

In real GDP, market value of final output is expressed in terms of prices prevailing in a particular year called base year.

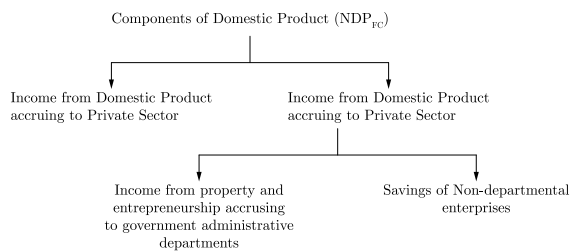
Conversion of nominal GDP into Real GDP:

$$\text{Real GDP} = \frac{\text{Nominal GDP}}{\text{Current Price Index}} \times 100$$

25. NET DOMESTIC PRODUCT OR DOMESTIC FACTOR INCOME (NDP_{FC})

It is the total factor income earned by the factors of production within the domestic territory of a country in an accounting year.

Its components have been shown in the given flow chart:



26. GROSS NATIONAL PRODUCT (GNP)

It measures the value of goods and services produced by only country's citizens both domestically and abroad.

$\text{GNP} = \text{GDP} + \text{NFIA}$ (Net Factor Income from Abroad)

27. NATIONAL INCOME (NNP_{FC})

It is the sum total of value added at factor cost or net domestic product at factor cost and net factor income from abroad. It is net of the national income which means it does not include depreciation.

28. PRIVATE INCOME

It is the income accruing to the private sector from all sources before payment of direct taxes.

It includes:

- (i) Income from domestic product accruing to private sector.
- (ii) Net factor income from abroad (NFIA).
- (iii) Current transfers –
 - (a) Interest on national debt
 - (b) Net current transfer from the rest of the world
 - (c) Current transfer from the government.

$$\text{GNP deflator} = \frac{\text{Nominal GNP}}{\text{Real GNP}} \times 100$$

29. GDP AND WELFARE

A higher GDP means more production of goods and services but it may not necessarily mean

higher welfare of the people. Following are the reasons of it:

- (i) Distribution of GDP. Increased GDP may be concentrated in a few hands leading to inequality in income distribution.
- (ii) Composition of GDP. Increase in GDP may be caused by rise in war goods or goods like liquor which will not increase welfare.
- (iii) Non-monetary exchanges. Services like those provided by a housewife are not included in national income leading to its under-estimation.
- (iv) Externalities. These are benefits (or harms) caused during the production process for which people are not paid (or penalized). These benefits (positive externalities) or harms (negative externalities) are not considered while estimating national income.

30. METHODS OF CALCULATING NATIONAL INCOME

30.1 Methods of Estimation of National Income

Production or Value Added Method:

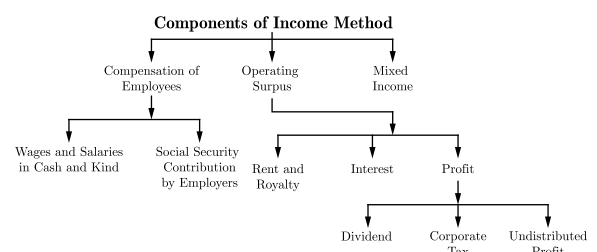
- (i) Value Added (GVA_{MP}) = Value of output – Intermediate consumption
 [Value of Output = Sales + Change in Stock;
 Change in Stock = Closing stock - Opening Stock]
 - (ii) $\text{NVA}_{\text{FC}} = \text{GVA}_{\text{MP}} - \text{Depreciation} - \text{NIT}$
 - (iii) $\text{NVA}_{\text{FC}} = \text{NDP}_{\text{FC}}$ (or Domestic Income)
- NNP_{FC} (or National income) = $\text{NDP}_{\text{FC}} + \text{NFIA}$

30.2 Problem of Double Counting

This means counting the value of the same product more than once in calculating National Income. This happens when proper distinction is not made between final and intermediate goods. This can be avoided by taking the value added method in the calculation of national income.

31. INCOME METHOD

Components of income method are as follows –



$$\text{NDP}_{\text{FC}} = \text{Compensation of Employees} + \text{Operating Surplus} + \text{Mixed Income}$$

$$\text{NNP}_{\text{FC}} = \text{NDP}_{\text{FC}} + \text{NFIA}$$

32. EXPENDITURE METHOD

Components of final expenditure method are as follows—

- (i) Private final consumption expenditure
- (ii) Government final consumption expenditure
- (iii) Gross domestic capital formation
 - (a) Gross domestic fixed capital formation
 - (b) Change in stock
- (iv) Net Exports (Exports – Imports)

$$\text{GDP}_{\text{MP}} = (\text{i}) + (\text{ii}) + (\text{iii}) + (\text{iv})$$

$$\text{NDP}_{\text{FC}} = \text{GDP}_{\text{MP}} - \text{NIT} - \text{Depreciation}$$

$$\text{NNP}_{\text{FC}} = \text{NDP}_{\text{FC}} + \text{NFIA}$$

MULTIPLE CHOICE QUESTION

1. With a rise in Real National Income, welfare of the people:

- (a) Rises
- (b) Falls
- (c) Remains unchanged
- (d) None of the above

Ans :

COMP 2024

- (a) Rises

2. Complete the table:

Producer	Value of output	Intermediate Consumption	Value Added
Farmer	2,000	—	2,000
Baker	_(i)_	2,000	2,000
Retail Seller	4,400	_(iii)_	400
Total	_(ii)_	6000	_(iv)_

Alternatives:

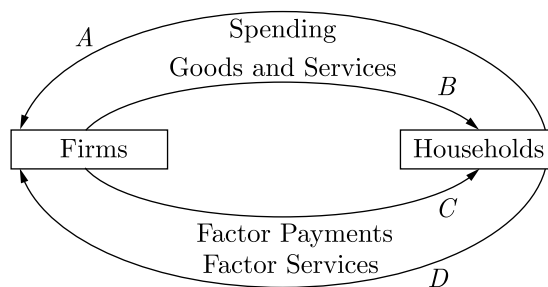
- (a) 4,000, 10,400, 4,000, 4,000
- (b) 4,000, 10,400, 4,000, 4,400
- (c) 2,000, 6,000, 6,000, 4,400
- (d) 4,000, 10,400, 6,000, 4,000

Ans :

COMP 2023

- (b) 4,000, 10,400, 4,000, 4,400

3. On the basis of the given figure identify the type of flow indicated by B and D:



Alternatives:

- (a) Real flow
- (b) Money flow
- (c) Nominal flow
- (d) National flow

Ans :

OD 2023

- (a) Real flow

4. The difference between Gross domestic product and Net domestic product is due to ____.

- (a) Net indirect taxes
- (b) Depreciation
- (c) Net factor income from abroad
- (d) Subsidies

Ans :

OD 2013

- (b) Depreciation

5. Goods which normally lose their own identity in the production process are known as ____.

- (a) Consumer durables
- (b) Intermediate goods
- (c) Services
- (d) Final goods

Ans :

FOREIGN 2014

- (b) Intermediate goods

6. Which of the following is a stock?

- (a) Wealth
- (b) Savings
- (c) Exports
- (d) Profit

Ans :

OD 2016

- (a) Wealth

7. The production method of calculating National Income gives us the following National Income Aggregate:

- (a) NDP_{MP}
- (b) NDP_{FC}
- (c) GDP_{MP}
- (d) GDP_{FC}

Ans :

OD 2015

(c) GDP_{MP}

- 8.** Following is not true about Operating Surplus, a component of the Income Method of calculating National Income.

- (a) it is also termed as Income from Property and Entrepreneurship
- (b) it includes rent, royalty, interest and profit
- (c) interest includes interest paid on loans taken for production and consumption purposes
- (d) corporate tax is a component of profit

Ans :

FOREIGN 2016

(c) interest includes interest paid on loans taken for production and consumption purposes

- 9.** Which of the following is a transfer income?

- (a) Scholarship
- (b) Wages and salaries
- (c) Rent
- (d) Interest

Ans :

SQP 2017

(a) Scholarship

- 10.** If Nominal GDP is ₹4400 crore and price index is 110, than Real GDP will be:

- (a) ₹4400 crore
- (b) ₹4000 crore
- (c) ₹4800 crore
- (d) ₹3600 crore

Ans :

COMP 2018

(b) ₹4000 crore

- 11.** Problem of double counting involves:

- (a) Omission of some values while estimating value of output
- (b) Addition of values more than once while estimating value of output
- (c) Including the value of only intermediate goods while estimating value of output
- (d) Including the value of only final goods while estimating value of output

Ans :

OD 2019

(b) Addition of values more than once while estimating value of output

- 12.** Which of the following is not included while estimating National Income?

- (a) Addition to machinery, factory buildings and equipments by firms
- (b) Purchase of goods by foreign tourists

- (c) Purchase of uniforms for nurses by a hospital
- (d) Purchase of car by a household

Ans :

FOREIGN 2020

(c) Purchase of uniforms for nurses by a hospital

- 13.** Which of the following is not included while estimating National Income?

- (a) Net imports
- (b) Indirect taxes
- (c) Depreciation
- (d) Both (a) and (c)

Ans :

DELHI 2021

(d) Both (a) and (c)

- 14.** A major cause of underestimation of GDP in an economy is:

- (a) Exclusion of value of intermediate goods
- (b) Exclusion of non-monetary exchanges
- (c) Exclusion of positive externalities
- (d) Exclusion of old age pension

Ans :

SQP 2022

(b) Exclusion of non-monetary exchanges

- 15.** Unilateral payments are also called as _____.

- (a) One sided payments
- (b) Transfer payments
- (c) Factor payments
- (d) Both (a) and (b)

Ans :

OD 2000

(d) Both (a) and (b)

- 16.** In which of the following cases will NNP_{FC} be equal to GDP_{FC} ?

- (a) When NFIA and depreciation are zero
- (b) When NIT and depreciation are zero
- (c) When NFIA and NIT are zero
- (d) When NFIA is more than depreciation

Ans :

FOREIGN 2001

(a) When NFIA and depreciation are zero

- 17.** Which of the following is correct for calculation of Domestic Factor Income?

- (a) Value of Output – Intermediate Consumption – NIT
- (b) Value of Output – Depreciation – NIT
- (c) Value of Output – Intermediate Consumption – Depreciation – NIT
- (d) Value of Output – Intermediate Consumption – Depreciation

Ans :

DELHI 2002

(c) Value of Output – Intermediate Consumption
Depreciation – NIT

Ans :

SQP 2016

(c) Normal wear and tear and foreseen obsolescence

18. Goods purchased for the following purpose are final goods :

- (a) For satisfaction of wants
- (b) For investment in firm
- (c) Both (a) and (b)
- (d) None of the above

Ans :

SQP 2017

(c) Both (a) and (b)

19. Which of the following is not a flow?

- (a) Capital
- (b) Income
- (c) Investment
- (d) Depreciation

Ans :

COMP 2015

(a) Capital

20. What is the consumption of fixed capital known as?

- (a) Depreciation
- (b) Capital formation
- (c) Investment
- (d) All of the above

Ans :

OD 2016

(a) Depreciation

21. Which of the following is a flow?

- (a) Deposits in a bank
- (b) Capital
- (c) Depreciation
- (d) Wealth

Ans :

OD 2016

(c) Depreciation

22. Which of the following is a stock?

- (a) Savings
- (b) Production
- (c) Consumption of fixed capital
- (d) Capital

Ans :

OD 2016

(d) Capital

23. Depreciation of fixed capital assets refers to :

- (a) Normal wear and tear
- (b) Foreseen obsolescence
- (c) Normal wear and tear and foreseen obsolescence
- (d) Unforeseen obsolescence

24. Foreign embassies in India are a part of India's:

- (a) Economic territory
- (b) Geographical territory
- (c) Both (a) and (b)
- (d) None of the above

Ans :

COMP 2017

(b) Geographical territory

25. National income is the sum of factor incomes accruing to :

- (a) Nationals
- (b) Economic territory
- (c) Residents
- (d) Both residents and non-residents

Ans :

FOREIGN 2016

(c) Residents

26. If $NDP_{FC} = ₹1,000$ and Net factor income paid to abroad = ₹800, then NNP_{FC} will be :

- (a) ₹1,800
- (b) ₹200
- (c) ₹2,000
- (d) ₹1,000

Ans :

DELHI 2018

(b) ₹200

27. Which of the following is not a part of operating surplus?

- (a) Rent
- (b) Mixed income of self employed
- (c) Interest
- (d) Profits

Ans :

DELHI 2018

(b) Mixed income of self employed

28. The difference between Gross domestic product and Net domestic product is due to :

- (a) Depreciation
- (b) Net indirect taxes
- (c) Net factor income from abroad
- (d) Change in stock

Ans :

DELHI 2018

(a) Depreciation

29. The difference between domestic income and national income is due to :

- (a) Depreciation
- (b) Net factor income from abroad
- (c) Net indirect taxes
- (d) Change in stock

Ans :

FOREIGN 2019

(b) Net factor income from abroad

30. Which of the following will not be included in national income?

- (a) Rent
- (b) Mixed income of self employed
- (c) Scholarships
- (d) Interest

Ans :

COMP 2019

(c) Scholarships

31. The sum of factor payments is equal to _____.

- (a) Domestic Income
- (b) National Income
- (c) Per Capita Real Income
- (d) Per Capita Nominal Income

Ans :

SQP 2020

(a) Domestic Income

32. Which of the following is not a 'factor payment'?

- (a) Free uniform to defence personnel.
- (b) Salaries to the Members of Parliament.
- (c) Rent paid to the owner of a building.
- (d) Scholarship given to the students.

Ans :

OD 2020

(d) Scholarship given to the students.

33. When Nominal Gross Domestic Product (GDP) is ₹840 crore and price Index is 120, then the Real GDP will be _____.

- (a) ₹700 crore
- (b) ₹900 crore
- (c) ₹800 crore
- (d) ₹500 crore

Ans :

FOREIGN 2020

(a) ₹700 crore

34. Which of the following statement is incorrect?

- (a) Gross Domestic Product (GDP) at Market price
= GDP at factor cost plus Net Indirect taxes.
- (b) Net National product (GNP) at Market price
= NNP at factor cost.
- (c) Gross National Product (GNP) at Market price
= GDP at Market price Plus Net factor income from abroad.
- (d) Net National Product (NNP) at factor cost
= National Income.

Ans :

DELHI 2020

(b) Net National product (GNP) at Market price
= NNP at factor cost.

35. From the statements given in Column-I and Column-II, Choose the correct pair.

	Column I		Column II
A.	Vegetables grown in the Personal garden	(i)	Non marketing activity
B.	A car used as a taxi	(ii)	Consumer good
C.	An air-conditioner used by household	(iii)	Capital good
D.	Scholarship given to students by government	(iv)	Factor income

- (a) A-(i)
- (b) B-(ii)
- (c) C-(iii)
- (d) D-(iv)

Ans :

SQP 2023

(a) A-(i)

36. Identify, which of the following is not considered as 'Normal Resident' of India?

- (a) An Indian citizen working in U.S.A. embassy located at New Delhi.
- (b) An Indian official working in Indian embassy in China.
- (c) An Indian diploma visiting Canada for a summit.
- (d) An Indian working in an American Company located in New York for a period of more than one year.

Ans :

FOREIGN 2024

(d) An Indian working in an American Company located in New York for a period of more than one year.

37. Net Domestic Product at Factor Cost (NDPFC) is a critical economic aggregate used to measure income. Which of the following best describes what NDPFC represents in an economy?

- (a) Total factor income earned domestically including NFIA
- (b) Total factor income earned by production factors within the domestic territory
- (c) Total value of all goods and services produced within the domestic territory
- (d) Total income from all sources, including current transfers

Ans :

OD 2000

(b) Total factor income earned by production factors within the domestic territory
NDPFC represents income earned by factors of production within a country's domestic territory during an accounting year.

- 38.** Private Income is a significant component in calculating economic performance. Which of the following components are included in Private Income earned by individuals in a country before direct taxes are paid?

- (a) Net current transfers from the rest of the world
- (b) Gross Domestic Product (GDP) generated within domestic boundaries
- (c) Interest on national debt, along with other current transfers
- (d) Both (a) and (c)

Ans :

FOREIGN 2001

- (d) Both (a) and (c)

Private income includes income from domestic products accruing to the private sector, net factor income from abroad (NFIA) and current transfers such as interest on national debt.

- 39.** When discussing Gross Domestic Product (GDP), there is often a distinction between Nominal GDP and Real GDP. How are Nominal GDP and Real GDP fundamentally different from each other?

- (a) Nominal GDP is adjusted for inflation, while Real GDP is not.
- (b) Real GDP is valued at base year prices, while Nominal GDP is valued at prices prevailing in the year of production.
- (c) Nominal GDP includes NFIA, while Real GDP excludes it.
- (d) Real GDP excludes depreciation, while Nominal GDP includes it.

Ans :

DELHI 2002

(b) Real GDP is valued at base year prices, while Nominal GDP is valued at prices prevailing in the year of production.

Nominal GDP measures output using current year prices, whereas Real GDP adjusts for inflation by using base year prices.

- 40.** Intermediate Goods play a vital role in the production process but are excluded from national income calculations. Which of the following qualifies as an intermediate good in the context of economic activity?

- (a) Machinery used in the production of goods
- (b) Fertilizer purchased by a farmer for agricultural production
- (c) A car purchased by a household for personal use
- (d) Food served in a restaurant for direct consumption

Ans :

SQP 2003

- (b) Fertilizer purchased by a farmer for agricultural production

Intermediate goods are used in the production of final goods. Fertilizer is utilized for agricultural output and is therefore classified as intermediate.

- 41.** Factor Payments play a critical role in the Circular Flow of Income. Which of the following best describes factor payments in an economic system?

- (a) Payments made for intermediate goods used in production
- (b) Payments made to households for providing productive services like labor and capital
- (c) Payments made by the government to firms as subsidies
- (d) Payments made for consumer goods purchased in the market

Ans :

FOREIGN 2006

- (b) Payments made to households for providing productive services like labor and capital

Factor payments include wages, rent, interest and profits earned by households for contributing productive resources to the economy.

- 42.** Net Factor Income from Abroad (NFIA) is a key concept in differentiating National Product from Domestic Product. What is the formula for calculating NFIA in the context of national income accounting?

- (a) Total factor income earned within the domestic territory
- (b) Factor income earned by residents abroad minus factor income earned by non-residents domestically
- (c) Net current transfers from abroad minus domestic consumption
- (d) Depreciation subtracted from Gross National Product

Ans :

COMP 2004

- (b) Factor income earned by residents abroad minus factor income earned by non-residents domestically

NFIA measures the net difference between income earned by residents abroad and income earned by non-residents within the domestic economy.

- 43.** Subsidies are crucial for reducing the cost of production and ensuring affordable goods for consumers. How can subsidies be best defined in the context of government policies to support production?

- (a) Taxes imposed on goods and services paid by consumers
- (b) Financial support provided by the government to reduce production costs and encourage specific goods
- (c) Penalties imposed on firms for producing harmful goods
- (d) The difference between market price and factor cost

Ans :

OD 2005

(b) Financial support provided by the government to reduce production costs and encourage specific goods

Subsidies are monetary aids provided by the government to promote the production of specific goods, reducing their market price.

- 44.** The GNP Deflator is an essential tool in adjusting nominal values for inflation. What is the primary purpose of the GNP Deflator in economic calculations?

- (a) To differentiate between gross and net national income
- (b) To adjust nominal GDP for inflation to calculate Real GDP
- (c) To calculate depreciation for fixed capital assets
- (d) To measure income distribution among citizens

Ans :

DELHI 2007

(b) To adjust nominal GDP for inflation to calculate Real GDP

The GNP Deflator accounts for inflation, converting nominal GDP into real GDP by using price indices.

- 45.** Gross National Product (GNP) is a broader measure than GDP. Which of the following statements accurately represents what GNP includes?

- (a) Total production within the domestic territory by residents and non-residents
- (b) Total production by residents, including income earned abroad

- (c) Total production of intermediate goods for resale or further production
- (d) Non-monetary exchanges and externalities

Ans :

SQP 2008

(b) Total production by residents, including income earned abroad

GNP accounts for goods and services produced by residents regardless of whether production occurs within or outside the domestic territory.

- 46.** National Income calculations do not include certain types of activities. Which of the following is excluded from national income due to the absence of market transactions?

- (a) Subsidies provided by the government to producers
- (b) Non-monetary exchanges like household services
- (c) Factor income earned by residents abroad
- (d) Depreciation of fixed capital

Ans :

COMP 2009

(b) Non-monetary exchanges like household services

Non-monetary exchanges, such as services provided by homemakers, are not included in national income since they do not involve market-based transactions.

- 47.** Gross Domestic Product (GDP) is often used as an economic indicator, but its scope is specific. What does GDP represent in terms of economic output and who is included in its calculation?

- (a) The total production of goods and services within the country's borders, excluding non-residents.
- (b) The total production of goods and services by both residents and non-residents within the country's borders.
- (c) The total production of goods and services by citizens, whether within or outside the country.
- (d) The total value of all goods and services exchanged in the global economy.

Ans :

OD 2010

(b) The total production of goods and services by both residents and non-residents within the country's borders.

GDP measures the monetary value of all final goods and services produced within a country's borders, including contributions from residents and non-residents.

48. Real GDP is often preferred over Nominal GDP for analyzing economic performance. Why is Real GDP considered more accurate for comparing output across years?

- (a) It excludes the effects of inflation by using base year prices.
- (b) It adjusts for depreciation in the value of fixed assets.
- (c) It includes factor income from abroad, making it more comprehensive.
- (d) It measures only the physical volume of production.

Ans :

FOREIGN 2011

(a) It excludes the effects of inflation by using base year prices.

Real GDP adjusts for changes in price levels, ensuring that output comparisons across years reflect real growth rather than inflationary effects.

49. Private Income is a crucial component in determining economic activity. What is included in Private Income and how is it calculated?

- (a) Income from domestic product, NFIA and current transfers like interest on national debt.
- (b) GDP, depreciation and subsidies provided by the government.
- (c) GNP minus current transfers and NFIA.
- (d) Only income earned by private businesses operating domestically.

Ans :

DELHI 2012

(a) Income from domestic product, NFIA and current transfers like interest on national debt.

Private Income includes all income accruing to the private sector before taxes, including domestic product income, NFIA and current transfers.

50. The term Factor Income is widely used in national income accounting. What does Factor Income represent and how is it different from Transfer Income?

- (a) Factor Income is payment for productive services, while Transfer Income is received without providing any goods or services in return.
- (b) Factor Income includes gifts and donations, while Transfer Income excludes these.
- (c) Factor Income is earned only domestically, while Transfer Income is earned abroad.
- (d) Factor Income and Transfer Income are synonymous and interchangeable terms.

Ans :

SQP 2013

(a) Factor Income is payment for productive services, while Transfer Income is received without providing any goods or services in return.

Factor Income includes wages, rent, interest and profits earned for providing productive services, while Transfer Income refers to payments like scholarships and pensions without any corresponding economic activity.

51. Net Domestic Product at Factor Cost (NDPFC) is an essential economic measure. How is it calculated using the Income Method?

- (a) Compensation of employees + operating surplus + mixed income of self-employed.
- (b) GDP at market prices - depreciation - net indirect taxes.
- (c) GNP + net factor income from abroad (NFIA).
- (d) Net exports + government spending - intermediate goods.

Ans :

COMP 2014

(a) Compensation of employees + operating surplus + mixed income of self-employed.

NDPFC represents the income earned by factors of production within a country and is calculated by summing the income components using the Income Method.

52. Subsidies are an essential economic tool used by governments to support production. How do subsidies impact the market price of goods and services?

- (a) They increase the market price by reducing production costs for producers.
- (b) They reduce the market price by lowering the effective cost of production.
- (c) They increase the demand for goods, indirectly increasing the market price.
- (d) They do not have any direct impact on market prices.

Ans :

OD 2015

(b) They reduce the market price by lowering the effective cost of production.

Subsidies provide financial support to producers, enabling them to lower production costs, which in turn reduces market prices for consumers.

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53. The problem of double counting is a common issue in calculating national income. What is double counting and how can it be avoided?

- (a) Counting intermediate goods as final goods; avoided by using value-added methods.
- (b) Counting only goods produced by residents; avoided by including non-resident production.
- (c) Counting depreciation twice; avoided by using net investment values.
- (d) Counting private income as public income; avoided by using income methods.

Ans :

FOREIGN 2016

(a) Counting intermediate goods as final goods; avoided by using value-added methods.

Double counting occurs when the value of intermediate goods is included in national income calculations, leading to overestimation. This is avoided by calculating the value added at each stage of production.

54. Net Factor Income from Abroad (NFIA) is vital for differentiating between national and domestic product. What does a positive NFIA indicate about a country's economic activities?

- (a) Non-residents are contributing more to the domestic economy than residents abroad.
- (b) Residents are earning more abroad than non-residents are earning domestically.
- (c) There is a surplus in the trade balance due to higher exports.
- (d) The country is dependent on foreign investments for growth.

Ans :

DELHI 2017

(b) Residents are earning more abroad than non-residents are earning domestically.

A positive NFIA implies that residents are earning higher incomes from economic activities abroad compared to the income earned domestically by non-residents.

55. What is the main difference between Gross Domestic Product (GDP) and Gross National Product (GNP)?

- (a) GDP includes only domestic production, while GNP includes income from abroad.
- (b) GDP is always higher than GNP, irrespective of economic conditions.
- (c) GDP includes intermediate goods, while GNP includes only final goods.
- (d) GDP excludes NFIA, while GNP includes NFIA in its calculation.

Ans :

SQP 2018

(d) GDP excludes NFIA, while GNP includes NFIA in its calculation.

GNP is calculated by adding Net Factor Income from Abroad (NFIA) to GDP, accounting for income earned by residents abroad.

56. Circular flow of income in a two-sector economy describes the interaction between households and firms. What type of payments flow from households to firms?

- (a) Factor payments for wages and rent
- (b) Payments for goods and services consumed by households
- (c) Subsidies received by producers
- (d) Taxes collected by the government

Ans :

COMP 2019

(b) Payments for goods and services consumed by households

In a two-sector model, households make payments to firms for the goods and services they consume, completing the circular flow of income.

57. Net Factor Income from Abroad (NFIA) is calculated as the difference between _____ and _____.

- (a) Domestic factor income, depreciation
- (b) Factor income earned by residents abroad, factor income earned by non-residents domestically
- (c) GDP, subsidies provided by the government
- (d) Private income, current transfers

Ans :

OD 2019

(b) Factor income earned by residents abroad, factor income earned by non-residents domestically
NFIA represents the net earnings of residents from abroad after deducting the income earned by non-residents within the domestic territory.

58. Subsidies provided by the government _____ the cost of production and _____ the market price of goods.

- (a) Increase, decrease
- (b) Decrease, decrease
- (c) Increase, increase
- (d) Decrease, increase

Ans :

FOREIGN 2020

(b) Decrease, decrease

Subsidies lower production costs for producers, which leads to a reduction in the market price of goods and services.

- 59.** Real GDP is calculated by expressing the value of final goods and services in terms of _____.
 (a) Current year prices
 (b) Base year prices
 (c) Market prices including NFIA
 (d) Prices adjusted for net indirect taxes

Ans :

DELHI 2021

- (b) Base year prices

Real GDP uses prices from a fixed base year to adjust for inflation, allowing for accurate comparisons of economic output over time.

- 60.** In the Income Method of calculating national income, NDPFC is the sum of _____, _____ and _____.
 (a) Compensation of employees, operating surplus, mixed income
 (b) Net exports, depreciation, subsidies
 (c) Private income, transfer payments, current transfers
 (d) Factor income, indirect taxes, intermediate goods

Ans :

SQP 2022

- (a) Compensation of employees, operating surplus, mixed income

NDPFC is calculated by summing the incomes earned by employees, the operating surplus of firms and the mixed income of self-employed individuals.

- 61.** Net Domestic Product at Factor Cost (NDPFC) is derived by subtracting _____ and _____ from GDP at Market Price (GDPMP).
 (a) Depreciation, indirect taxes
 (b) Net Indirect Taxes (NIT), depreciation
 (c) Subsidies, capital transfers
 (d) Depreciation, factor income from abroad

Ans :

COMP 2023

(b) Net Indirect Taxes (NIT), depreciation
 NDPFC is obtained by deducting depreciation and Net Indirect Taxes (NIT) from GDPMP to arrive at the factor income earned within the domestic territory.

- 62.** Double counting in national income calculations occurs when _____ are included along with _____.
 (a) Intermediate goods, final goods
 (b) Private transfers, factor income
 (c) Subsidies, market prices
 (d) Exports, imports

Ans :

OD 2024

- (a) Intermediate goods, final goods

Double counting happens when the value of intermediate goods is added to the value of final goods, inflating the national income figures.

- 63.** Gross National Product (GNP) is calculated by adding _____ to GDP.
 (a) Depreciation
 (b) Net Factor Income from Abroad (NFIA)
 (c) Net Indirect Taxes (NIT)
 (d) Transfer payments

Ans :

FOREIGN 2000

- (b) Net Factor Income from Abroad (NFIA)

GNP includes the income earned by residents from abroad, added to GDP to reflect the total national production.

- 64.** Goods produced by a farmer and retained for personal consumption are called _____.
 (a) Consumer goods
 (b) Capital goods
 (c) Goods for self-consumption
 (d) Intermediate goods

Ans :

DELHI 2001

- (c) Goods for self-consumption

Goods retained by producers for their own use are classified as goods for self-consumption and are part of the economic activities.

- 65.** A subsidy is a _____ payment made by the government to _____ the cost of production.
 (a) Direct, increase
 (b) Direct, decrease
 (c) Financial, decrease
 (d) Financial, increase

Ans :

SQP 2002

- (c) Financial, decrease

Subsidies are financial payments given by the government to reduce production costs and encourage the supply of certain goods.

- 66.** The scope of domestic territory includes _____ and _____.
 (a) Airspace over the country, consulates of other countries within the borders
 (b) Territorial waters, embassies and consulates of the country located abroad
 (c) International waters, all imported goods
 (d) Domestic businesses, foreign investments

Ans :

COMP 2003

(b) Territorial waters, embassies and consulates of the country located abroad

The domestic territory covers political frontiers, including territorial waters and consulates of the country located abroad.

ASSERTION AND REASON

67. Assertion : Subsidies are also referred to as economic or financial assistance.

Reason : Subsidies do not lead to any value addition.

- (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
- (b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).
- (c) Assertion (A) is true but Reason (R) is false.
- (d) Assertion (A) is false but Reason (R) is true.

Ans :

OD 2024

(b) Assertion and reason both are correct statements but reason is not correct explanation for assertion. Subsidies are granted to promote exports or to set up industries in backward areas.

68. Assertion : Purchases by one production unit from other production units can be of intermediate as well as final goods.

Reason : Intermediate goods have direct demand whereas final goods have derived demand.

- (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
- (b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).
- (c) Assertion (A) is true but Reason (R) is false.
- (d) Assertion (A) is false but Reason (R) is true.

Ans :

SQP 2024

(c) Assertion is true but Reason is false.

A production unit can purchase raw materials as well as machinery from other production units.

69. Assertion : Domestic Income can be greater than National Income.

Reason : National Income is less than domestic income when net factor income from abroad is

negative.

- (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
- (b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).
- (c) Assertion (A) is true but Reason (R) is false.
- (d) Assertion (A) is false but Reason (R) is true.

Ans :

DELHI 2015

(a) Assertion and reason both are correct statements and reason is correct explanation for assertion.

70. Assertion : National Income at constant prices may give a misleading picture of economic performance.

Reason : Due to price fluctuations National Income at current prices may give an incorrect picture of economic growth.

- (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
- (b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).
- (c) Assertion (A) is true but Reason (R) is false.
- (d) Assertion (A) is false but Reason (R) is true.

Ans :

MAIN 2012

(d) Assertion is false but Reason is true.

National income at current prices may give a misleading picture of economic performance.

71. Assertion : Composition of GDP supports the use of GDP as an index of economic welfare.

Reason : Increase in GDP may not necessarily result in increase in economic welfare.

- (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
- (b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).
- (c) Assertion (A) is true but Reason (R) is false.
- (d) Assertion (A) is false but Reason (R) is true.

Ans :

COMP 2017

(d) Assertion is false but Reason is true.

GDP may also increase due to production of war goods which can be a limitation for GDP as an index of economic welfare.

72. Assertion : Gross investment adds to the stock of capital in the domestic economy.

Reason : Gross domestic capital formation is the expenditure on acquiring goods for investment by the production units located within the domestic territory.

- (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
- (b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).
- (c) Assertion (A) is true but Reason (R) is false.
- (d) Assertion (A) is false but Reason (R) is true.

Ans :

OD 2011

(a) Assertion and reason both are correct statements and reason is correct explanation for assertion.

73. Assertion : Transfer income is not included in national income.

Reason : Transfer income is a bilateral concept.

- (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
- (b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).
- (c) Assertion (A) is true but Reason (R) is false.
- (d) Assertion (A) is false but Reason (R) is true.

Ans :

SQP 2019

(c) Assertion is true but Reason is false.
Transfer income is a unilateral concept. It does not reflect any production of goods and services.

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74. Assertion : Domestic Income is a geographical concept.

Reason : Domestic Income includes the value of final goods and services produced within the domestic territory of a country.

- (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
- (b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).
- (c) Assertion (A) is true but Reason (R) is false.
- (d) Assertion (A) is false but Reason (R) is true.

Ans :

SQP 2021

(d) Assertion is false but Reason is true. Domestic Income is a territorial concept.

75. Assertion : Sale and purchase of second hand goods is not included in National Income.

Reason : The imputed value of goods produced for self consumption is included in national income as they are not sold in the market.

- (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
- (b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).
- (c) Assertion (A) is true but Reason (R) is false.
- (d) Assertion (A) is false but Reason (R) is true.

Ans :

MAIN 2013

(b) Assertion and reason both are correct statements but reason is not correct explanation for assertion. Sale and purchase of second hand goods does not add to the current flow of goods and services.

76. Assertion : Real Gross Domestic Product is a better indicator of economic growth of a nation as compared to Nominal Gross Domestic Product.

Reason : Real Gross Domestic Product measures the value of goods and services at current year prices.

- (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
- (b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).
- (c) Assertion (A) is true but Reason (R) is false.
- (d) Assertion (A) is false but Reason (R) is true.

Ans :

COMP 2018

(c) Assertion is true but Reason is false.

STATEMENT BASED QUESTIONS

77. Statement 1 : Gross Domestic Product (GDP) is the sum total of the gross market value of all the final goods and services added by all the sectors in the economy during a fiscal year.

Statement 2 : Gross Value Added at Market Price (GVA_{MP}) is equal to the excess of value of output over intermediate consumption.

- (a) Statement 1 is true & Statement 2 is false.
- (b) Statement 1 is false & Statement 2 is true.
- (c) Both statements 1 & 2 are true.
- (d) Both statements 1 & 2 are false.

Ans :

FOREIGN 2020

- (c) Both statements 1 & 2 are true.

78. Identify the correct combination of statements about Net Factor Income from Abroad (NFIA) :

- (i) NFIA is the difference between income earned by residents abroad and non-residents domestically.
- (ii) NFIA is always negative for every country.
- (iii) NFIA is used to calculate Gross National Product (GNP).
- (iv) NFIA is excluded when calculating GDP.
- (a) (i) and (ii)
- (b) (i), (iii) and (iv)
- (c) (i) and (iii)
- (d) (ii), (iii) and (iv)

Ans :

OD 2009

- (c) (i) and (iii)

Statements (i) and (iii) are correct because NFIA represents the net earnings from international activities and is used to calculate GNP. However, NFIA is not always negative and it is excluded in GDP calculations.

79. Which of the following statements about Real GDP is correct?

- (i) Real GDP adjusts for inflation using base year prices.
- (ii) Real GDP is always lower than Nominal GDP.
- (iii) Real GDP measures the physical volume of production.
- (iv) Real GDP is calculated by excluding Net Factor Income from Abroad (NFIA).
- (a) (i) and (ii)
- (b) (i) and (iii)
- (c) (i), (iii) and (iv)
- (d) (ii), (iii) and (iv)

Ans :

FOREIGN 2010

- (b) (i) and (iii)

Statements (i) and (iii) are correct because Real GDP accounts for inflation using base year prices and measures the physical production volume. It is not always lower than Nominal GDP and NFIA is not part of Real GDP.

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80. Which of the following statements about subsidies is true?

- (i) Subsidies increase production costs for producers.
- (ii) Subsidies lower the market price of goods.
- (iii) Subsidies encourage production and consumption of certain goods.
- (iv) Subsidies are included as indirect taxes in GDP calculations.
- (a) (ii) and (iii)
- (b) (i), (ii) and (iii)
- (c) (ii), (iii) and (iv)
- (d) (i) and (iv)

Ans :

SQP 2012

- (a) (ii) and (iii)

Statements (ii) and (iii) are correct as subsidies reduce production costs, lowering market prices and promoting the production and consumption of targeted goods. Subsidies are not included as indirect taxes.

81. Which of the following statements about Subsidies is true?

- (i) Subsidies reduce the market price of goods and services.
- (ii) Subsidies increase the production costs for producers.
- (iii) Subsidies encourage the production and consumption of certain goods.
- (iv) Subsidies are added to Net Indirect Taxes (NIT).
- (a) (i) and (iii)
- (b) (i), (ii) and (iv)
- (c) (ii) and (iv)
- (d) (iii) and (iv)

Ans :

SQP 2017

- (a) (i) and (iii)

Statements (i) and (iii) are correct because subsidies lower market prices and promote production and consumption of targeted goods. They do not increase production costs or form part of NIT.

82. Which of the following statements about Gross National Product (GNP) is accurate?

- (i) GNP includes all goods and services produced by residents, domestically and abroad.
- (ii) GNP excludes Net Factor Income from Abroad (NFIA).
- (iii) GNP adjusts GDP by adding or subtracting NFIA.
- (iv) GNP is always greater than GDP.

- (a) (i) and (iii)
- (b) (ii) and (iv)
- (c) (i), (ii) and (iii)
- (d) (i), (iii) and (iv)

Ans :

DELHI 2011

- (a) (i) and (iii)

Statements (i) and (iii) are correct as GNP includes domestic and international production by residents and adjusts GDP by NFIA. GNP can be less than GDP if NFIA is negative.

83. Identify the correct combination of statements about Intermediate Goods :

- (i) Intermediate goods are used for resale or further production.
- (ii) Their value is not included in national income.
- (iii) Intermediate goods are counted as final goods in GDP calculations.
- (iv) Including intermediate goods in national income causes double counting.
- (a) (i), (ii) and (iv)
- (b) (ii), (iii) and (iv)
- (c) (i), (ii) and (iii)
- (d) (i) and (iii)

Ans :

OD 2014

- (a) (i), (ii) and (iv)

Statements (i), (ii) and (iv) are correct because intermediate goods are used for resale or further production, excluded from national income and including them leads to double counting.

84. Which of the following statements about Real GDP is accurate?

- (i) Real GDP eliminates the effects of inflation.
- (ii) Real GDP is calculated at current prices.
- (iii) Real GDP uses base year prices for comparison.
- (iv) Real GDP is always equal to Nominal GDP.
- (a) (i), (ii) and (iii)
- (b) (ii) and (iv)
- (c) (i) and (iii)
- (d) (ii), (iii) and (iv)

Ans :

FOREIGN 2015

- (c) (i) and (iii)

Statements (i) and (iii) are correct as Real GDP adjusts for inflation using base year prices. It is not calculated at current prices and is not always equal to Nominal GDP.

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85. Select the correct statements about Net Domestic Product at Factor Cost (NDPFC) :

- (i) NDPFC is calculated by subtracting depreciation from GDP.
- (ii) NDPFC includes Net Indirect Taxes (NIT) in its calculation.
- (iii) NDPFC represents the income earned by production factors within the domestic economy.
- (iv) NDPFC excludes NFIA.
- (a) (i), (ii) and (iii)
- (b) (ii) and (iv)
- (c) (i), (iii) and (iv)
- (d) (i) and (ii)

Ans :

COMP 2013

- (c) (i), (iii) and (iv)

Statements (i), (iii) and (iv) are correct because NDPFC excludes NFIA, is derived by subtracting depreciation from GDP and reflects domestic income. NIT is excluded in its calculation.

86. Select the correct statements about Factor Income :

- (i) Factor income is earned in exchange for rendering productive services.
- (ii) Factor income includes rent, wages, interest and profit.
- (iii) Factor income is excluded from national income calculations.
- (iv) Factor income reflects the payments made to factors of production.
- (a) (i), (ii) and (iv)
- (b) (ii), (iii) and (iv)
- (c) (i), (ii) and (iii)
- (d) (i), (iii) and (iv)

Ans :

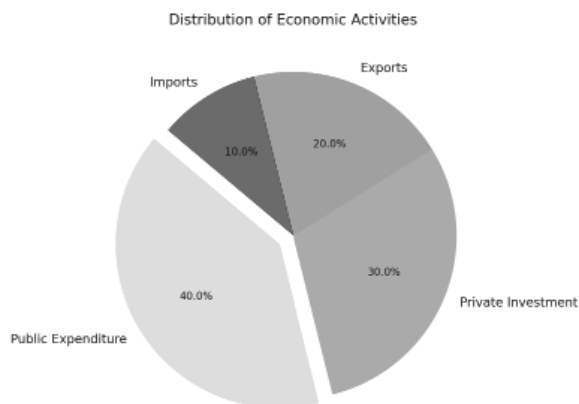
COMP 2019

- (a) (i), (ii) and (iv)

Statements (i), (ii) and (iv) are correct because factor income includes payments made for productive services, is a part of national income and comprises rent, wages, interest and profit.

GRAPH BASED QUESTIONS

87. Which category, crucial for government-led development initiatives, is likely to have the highest percentage in the distribution of economic activities?



- (a) Public Expenditure
 (b) Private Investment
 (c) Exports
 (d) Imports

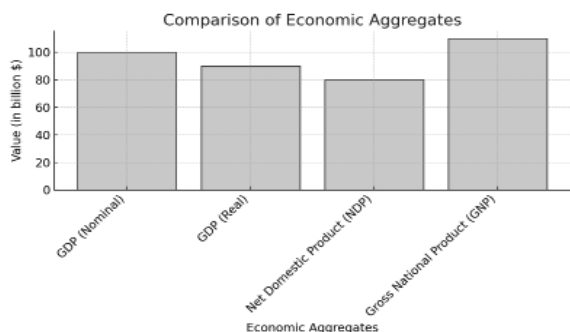
Ans :

COMP 2024

- (a) Public Expenditure

The pie chart shows that Public Expenditure has the largest share at 40%, reflecting its importance in funding infrastructure, social welfare and development programs, which are key drivers of economic growth.

88. Based on the bar graph, which economic aggregate has the highest value?



- (a) GDP (Nominal)
 (b) GDP (Real)
 (c) Net Domestic Product (NDP)
 (d) Gross National Product (GNP)

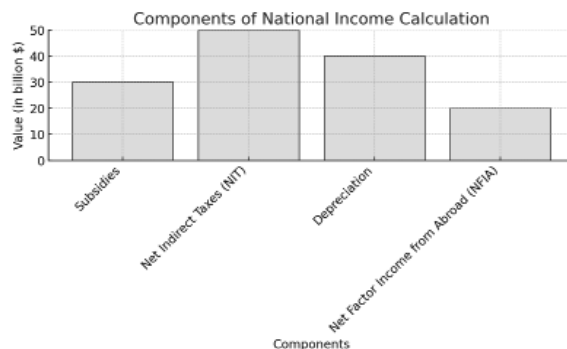
Ans :

OD 2021

- (d) Gross National Product (GNP)

The bar graph shows that Gross National Product (GNP) has the highest value at 110 billion dollars, compared to other aggregates like GDP (Nominal), GDP (Real) and Net Domestic Product (NDP).

89. Based on the bar graph, which component has the second-highest value?



- (a) Subsidies
 (b) Net Indirect Taxes (NIT)
 (c) Depreciation
 (d) Net Factor Income from Abroad (NFIA)

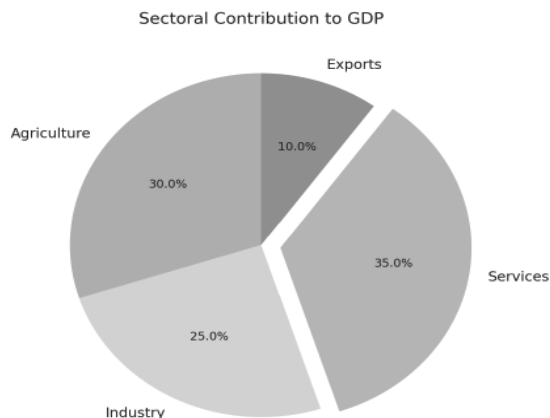
Ans :

FOREIGN 2022

- (c) Depreciation

The bar graph indicates that Net Indirect Taxes (NIT) have the highest value at 50 billion dollars, followed by Depreciation at 40 billion dollars.

90. According to the pie chart, which sector has the largest contribution to GDP?



- (a) Agriculture
 (b) Industry
 (c) Services
 (d) Exports

Ans :

DELHI 2023

- (c) Services

The pie chart indicates that the Services sector has the largest contribution to GDP at 35%, followed by Agriculture (30%), Industry (25%) and Exports (10%).

PASSAGE BASED QUESTION

91. Net Factor Income from Abroad (NFIA) is the difference between income earned by residents abroad and income earned by non-residents within the domestic territory. It is a key component for calculating Gross National Product (GNP), which adjusts GDP to include net income from abroad. What is Net Factor Income from Abroad (NFIA)?

- (a) Income earned by all residents domestically
- (b) Difference between income earned by residents abroad and non-residents domestically
- (c) Total income earned domestically by non-residents
- (d) Income earned from government subsidies

Ans :

OD 2004

(b) Difference between income earned by residents abroad and non-residents domestically
NFIA adjusts for the net income from international economic activities by accounting for the difference between income earned abroad by residents and income earned domestically by non-residents.

92. Gross National Product (GNP) is derived by adding Net Factor Income from Abroad (NFIA) to GDP. It measures the total value of goods and services produced by a country's residents, regardless of their location.

How is Gross National Product (GNP) calculated?

- (a) By adding Net Factor Income from Abroad (NFIA) to GDP
- (b) By subtracting depreciation from GDP
- (c) By adding net indirect taxes to GDP
- (d) By including income from current transfers

Ans :

FOREIGN 2005

(a) By adding Net Factor Income from Abroad (NFIA) to GDP

GNP includes all goods and services produced by a country's residents and is calculated by adding NFIA to GDP.

93. Net Domestic Product at Factor Cost (NDPFC) is calculated by subtracting depreciation and Net Indirect Taxes (NIT) from GDP. It represents the total factor income earned within the domestic territory. What components are subtracted from GDP to calculate NDPFC?

- (a) Depreciation and Net Indirect Taxes (NIT)
- (b) Subsidies and net exports

- (c) Depreciation and NFIA
- (d) Private final consumption and taxes

Ans :

DELHI 2006

(a) Depreciation and Net Indirect Taxes (NIT)
NDPFC adjusts GDP by subtracting depreciation and NIT to reflect income earned within the domestic economy.

94. Nominal GDP values goods and services produced in a year at current prices, while Real GDP uses base year prices to adjust for inflation. Real GDP provides a more accurate comparison of economic performance over time.

What is the key difference between Nominal GDP and Real GDP?

- (a) Nominal GDP includes NFIA, while Real GDP excludes it.
- (b) Real GDP adjusts for inflation using base year prices, while Nominal GDP uses current prices.
- (c) Nominal GDP includes depreciation, while Real GDP does not.
- (d) Real GDP excludes subsidies, while Nominal GDP includes them.

Ans :

SQL 2007

(b) Real GDP adjusts for inflation using base year prices, while Nominal GDP uses current prices.
Real GDP accounts for inflation by using a fixed base year's prices, while Nominal GDP reflects current prices without adjustment.

95. Double counting occurs when the value of intermediate goods is added along with final goods in national income calculations, leading to overestimation. It can be avoided by using the value-added method.

What is double counting in national income and how can it be avoided?

- (a) Adding private income twice; avoided by subtracting NIT
- (b) Counting intermediate goods with final goods; avoided by value-added method
- (c) Including subsidies with taxes; avoided by GDP adjustments
- (d) Including NFIA twice; avoided by recalculating GDP

Ans :

COMP 2008

(b) Counting intermediate goods with final goods; avoided by value-added method

Double counting inflates national income by including intermediate goods, which can be avoided by calculating the value added at each production stage.

- 96.** Real GDP uses base year prices to measure the market value of final goods and services, eliminating the impact of inflation. This provides a more realistic assessment of economic growth compared to Nominal GDP.

Why is Real GDP preferred over Nominal GDP for economic analysis?

- (a) It includes subsidies to adjust for price changes.
- (b) It uses base year prices to account for inflation.
- (c) It excludes depreciation from the total GDP.
- (d) It measures only physical production volume.

Ans :

OD 2009

(b) It uses base year prices to account for inflation. Real GDP adjusts for inflation using a base year, providing a more accurate representation of economic growth over time.

- 97.** Net Domestic Product at Factor Cost (NDPFC) represents the total income earned by factors of production within a domestic economy. It is calculated by subtracting depreciation and Net Indirect Taxes (NIT) from GDP at market prices. Which components are deducted from GDP at market prices to calculate NDPFC?

- (a) Subsidies and transfer payments
- (b) Depreciation and Net Indirect Taxes (NIT)
- (c) Intermediate goods and final consumption
- (d) Net Factor Income from Abroad (NFIA) and NIT

Ans :

FOREIGN 2010

(b) Depreciation and Net Indirect Taxes (NIT) NDPFC is derived by subtracting depreciation and NIT from GDP to measure income earned within the domestic territory.

- 98.** Gross National Product (GNP) includes all goods and services produced by residents of a country, both domestically and abroad. It is calculated by adding Net Factor Income from Abroad (NFIA) to GDP.

How does GNP differ from GDP in national income accounting?

- (a) GNP includes NFIA, while GDP excludes it.
- (b) GDP measures only domestic production, while GNP excludes international activities.
- (c) GNP excludes depreciation, while GDP includes it.
- (d) GDP accounts for current transfers, while GNP does not.

Ans :

DELHI 2010

- (a) GNP includes NFIA, while GDP excludes it. GNP adjusts GDP by adding income earned by residents abroad and subtracting income earned by non-residents domestically, represented by NFIA.

- 99.** Intermediate goods are those used in the production of final goods and are not included in national income calculations. They prevent double counting, ensuring accurate measurement of economic output.

Why are intermediate goods excluded from national income calculations?

- (a) They are considered part of factor income.
- (b) Including them would result in double counting.
- (c) They represent non-monetary transactions.
- (d) They are not sold in the domestic market.

Ans :

SQP 2011

- (b) Including them would result in double counting.

Intermediate goods are excluded from national income to avoid double counting, as their value is already included in the final goods.

- 100.** A subsidy is a financial aid provided by the government to reduce production costs, making goods and services more affordable for consumers. It lowers market prices and encourages production. What is the primary purpose of a subsidy provided by the government?

- (a) To increase market prices and discourage consumption.
- (b) To reduce production costs and make goods affordable.
- (c) To increase indirect taxes on final goods.
- (d) To improve factor income calculations in GDP.

Ans :

COMP 2012

- (b) To reduce production costs and make goods affordable.

ONE MARK QUESTIONS

- 101.** What is macroeconomics?

Ans :

OD 2024

Macroeconomics studies the behavior of overall economic aggregates and averages.

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102. Define 'Resident'.

Ans : FOREIGN 2023

A resident is someone who lives and earns within the boundaries of a country.

103. Define Inventory or Stocks.

Ans : DELHI 2020

Stocks are variables measured at a specific point in time, such as the capital invested by a firm on 31st March 2015.

104. Define unplanned inventories (stock).

Ans : SQP 2020

Unplanned inventory refers to unexpected changes in the stock of goods.

105. Define flows.

Ans : COMP 2016

Flow variables are economic measures assessed over a period of time, such as income, expenditure and savings.

106. Define Consumption goods.

Ans : OD 2014

Consumption goods are items used by consumers for satisfaction, not for resale or further production, such as a car purchased by a household.

107. Give the meaning of Capital goods.

Ans : FOREIGN 2014

Capital goods are assets like machinery that form a country's capital stock and are used in production processes.

108. Give two examples of intermediate goods.

Ans : OD 2014

Examples of intermediate goods include:

- (i) Milk used in a dairy shop for resale.
- (ii) Milk used for investment in a firm.

109. Define the term 'Public Goods'.

Ans : DELHI 2020

Public goods are services provided for the whole society, where one person's use does not reduce availability for others, such as streetlights.

110. Define final goods.

Ans : COMP 2010,2013

Final goods are those used for consumption or investment and are not involved in further production.

111. Define intermediate goods.

Ans : SQP 2011

Intermediate goods are utilized in production and are not counted in National Income calculation.

112. Define capital formation.

Ans : OD 2016

Capital formation refers to the creation of physical assets like buildings and machines to enhance production within an accounting year.

113. Define investment.

Ans : FOREIGN 2013

Investment, or capital formation, is the creation of physical assets to increase production capacity, adding to an economy's capital stock.

114. Define national product.

Ans : DELHI 2014

National product is the net monetary value of all final goods and services produced by a country's residents in one year.

115. Define domestic product.

Ans : SQP 2014

Domestic product is the value of final goods and services produced within a country's economic territory in one year.

116. What are two sources of domestic income?

Ans : OD 2011

Domestic income comprises income from the domestic product accruing to the private sector and the government.

117. Give the meaning of depreciation.

Ans : COMP 2014

Depreciation is the decline in the value of fixed assets due to wear and tear, passage of time, or expected obsolescence.

118. State, whether the given statement is true or false :
'Unexpected obsolescence is a component of depreciation.'

Ans : FOREIGN 2020
Correct, unexpected obsolescence is considered a capital loss, not depreciation.

- 119.** State, whether the following statement is true or false :
'Inventory is a stock variable.'

Ans : SQP 2020
True. As it is related to a point of time.

- 120.** Define domestic income.

Ans : COMP 2021
Domestic income is the monetary value of final goods and services produced within a country's domestic territory in a year.

- 121.** What is transfer payment?

Ans : OD 2010
Transfer payments are one-way payments received without contributing to the current production of goods and services.

- 122.** Define intermediate consumption.

Ans : FOREIGN 2013
Intermediate consumption refers to the use of intermediate goods in the production of final goods.

- 123.** ₹2,000 note lying in wallet of Rohini, a student, is an example of _____ (stock/flow) variable.

Ans : DELHI 2020
Stock

- 124.** Define GDP.

Ans : FOREIGN 2012
GDP is the total monetary value of final goods and services produced within a country's domestic territory in a year.

- 125.** Define GNP.

Ans : DELHI 2018
GNP is the total monetary value of final goods and services produced within a country's domestic territory, plus net factor income from abroad, in a year.

- 126.** Define NNP.

Ans : SQP 2020
NNP is the net monetary value of final goods and

services produced within a country's domestic territory, plus net factor income from abroad, in a year.

- 127.** What is the difference between GNP and NNP?

Ans : COMP 2019
GNP includes depreciation, whereas NNP excludes it.

- 128.** What is the difference between GNP and NDP?

Ans : OD 2017
 $NDP = GNP - \text{Depreciation} - \text{Net Foreign Income}$.

- 129.** Give two examples of net indirect taxes.

Ans : FOREIGN 2016
Examples of net indirect taxes include excise duty and sales tax.

- 130.** What is dividend?

Ans : DELHI 2019
Dividend is the portion of a company's profit distributed to its shareholders.

- 131.** Combined factor income, which can't be separated into various factor income components is known as _____.

Ans : SQP 2020
Mixed income of the self employed.

- 132.** Net Domestic Fixed Capital Formation + Change in Stock = _____.

Ans : COMP 2020
 $\text{Net Domestic Fixed Capital Formation} + \text{Change in Stock} = \text{Net Domestic Capital Formation}$

- 133.** State, whether the following statement is true or false:
'Purchase of machinery by a producer is an intermediate good.'

Ans : OD 2020
False; Purchase of machinery by a producer is a final good.

- 134.** $\text{Rent} + \text{Interest} + \text{Profit} = \text{_____}$.

Ans : FOREIGN 2020
 $\text{Rent} + \text{Interest} + \text{Profit} = \text{Operating Surplus}$

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- 135.** When does Net Factor Income from Abroad (NFIA) show Negative Value?

Ans :

DELHI 2020

Net Factor Income from Abroad (NFIA) is the difference between factor income received from abroad and factor income paid to abroad and it is negative when income earned from abroad is less than the income paid.

- 136.** State the meaning of retained earnings.

Ans :

SQP 2020

Retained earnings are the portion of profits reserved after paying corporate tax and dividends.

- 137.** Define National Income.

Ans :

COMP 2013

National Income is the monetary value of final goods and services produced within a country's domestic territory in a year, plus net factor income from abroad.

- 138.** Is National Income a stock or flow variable?

Ans :

OD 2015

National Income is a flow variable as it is measured over a specific period of time.

TWO MARK QUESTIONS

- 139.** Disposition Phase of circular flow of Income involves flow of factor Income, which comprises of rent, wages, interest and profits from firms to households.

Defend or refute the statement, giving valid reasons in support of your answer.

Ans :

FOREIGN 2024

Income generation and distribution occur in phase 2, where factors of production receive payments like rent, wages, interest and profit. In phase 3, income disposition takes place through consumption expenditure by households and investment expenditure by producers, reflecting the expenditure of income generated earlier. Thus, phase 3 involves spending, following income generation in phase 2.

- 140.** State the meaning of 'normal resident' of a country.

Ans :

FOREIGN 2023

A country's normal residents are individuals or institutions whose center of economic interest is within the domestic territory. This means they live or are located in the economic territory and conduct primary activities such as earning, spending and accumulation from that location.

- 141.** Giving reasons, classify the following into intermediate and final goods:

- Machines purchased by a dealer of machines.
- A car purchased by a household.

Ans :

OD 2010

- Machines bought by a dealer are intermediate goods as they are meant for resale.
- A car purchased by a household is a final good since the expenditure on it is final and it is not intended for resale.

- 142.** Giving reasons, classify the following into intermediate products and final products:

- Furniture purchased by a school.
- Chalks, dusters, etc. purchased by a school.

Ans :

DELHI 2011

- Furniture for a school is a final product as it contributes to capital formation.
- Chalks and dusters are intermediate products as they are consumed in the production of teaching services, serving as inputs rather than ends themselves.

- 143.** Giving reasons classify the following into intermediate products and final products:

- Computers installed in an office.
- Mobile sets purchased by a mobile dealer.

Ans :

COMP 2011

- Computers installed in an office are final products as they are used for investment purposes.
- Mobile sets meant for resale are intermediate products as they serve as goods for further sale.

- 144.** Giving reason identify whether the following are final expenditures or intermediate expenditures:

- Expenditure on maintenance of an office building.
- Expenditure on improvement of a machine in a factory.

Ans :

SQP 2011

- (i) Expenditure on office building maintenance is intermediate expenditure as it involves single-use producer goods.
- (ii) Expenditure on improving a factory machine is final expenditure as it constitutes investment.

145. Should the following be treated as final expenditure or intermediate expenditure? Give reasons for your answer.

- (i) Purchase of furniture by a firm.
- (ii) Expenditure on maintenance by a firm.

Ans : OD 2012

- (i) A firm's purchase of furniture is final expenditure as it represents investment.
- (ii) on maintenance by a firm is intermediate expenditure as it is recurrent and not permanent.

146. Net exports reflect the difference between a country's exports and imports. They show the role of international trade in generating income. Why are net exports included in National Income? Explain.

Ans : DELHI 2011

Net exports, being part of the domestic product, are included in the national income as they reflect the value of goods and services produced domestically. Since national income accounts for the domestic product generated by residents, net exports form an integral component of it.

147. Giving reasons, explain the treatment assigned to the following while estimating National Income:

- (i) Family members working free on the farm owned by the family.
- (ii) Payment of interest on borrowings by general government.

Ans : COMP 2011

- (i) Production for self-consumption is included in national income as it contributes to the economy's total output.
- (ii) Non-factor payments, not involving the flow of goods and services, are excluded from national income.

148. How should the following be treated while calculating national income? Give reasons for your answer.

- (i) Purchases by foreign tourists.
- (ii) Purchase of shares by a domestic firm.

Ans : SQP 2012

- (i) Purchases by foreign tourists are included in national income as they are treated as exports of goods and services.
- (ii) Purchases of shares by a domestic firm are excluded from national income as they are financial transactions without any production involved.

149. How should the following be treated in estimating National Income of a Country? Give valid reasons.

- (i) Profits earned by Foreign Banks in India.
- (ii) Expenditure on up-gradation of fixed asset by a firm.

Ans : OD 2023

- (i) Earned by foreign banks in India is excluded from national income as it constitutes factor income paid abroad to non-residents for their contribution to production in India's domestic territory.
- (ii) Expenditure on upgrading a firm's fixed assets is included in national income as it forms part of gross fixed capital formation.

150. How should the following be treated in the calculation of national income? Give reasons for your answer.

- (i) Interest on public debt
- (ii) Bonus given to railway employees

Ans : SQP 2013

- (i) Interest on public debt is not included in national income as it is paid on loans taken by the government for consumption purposes, not investment.
- (ii) Bonus to railway employees is included in national income as it is part of compensation of employees, a component of the income method of calculating national income.

151. Giving reason state how the following are treated in estimation of national income:

- (i) Expenditure on old age pensions by government.
- (ii) Expenditure on engine oil by car service station.

Ans : OD 2019

- (i) Expenditure on old age pensions by the government is excluded from national income as it is a transfer payment.
- (ii) Expenditure on engine oil by a car service station is excluded from national income as it is an intermediate expenditure.

152. Giving reasons, explain the treatment assigned to the following while estimating National Income:

- (i) Social security contributions by employees
- (ii) Pension paid after retirement

Ans :

DELHI 2011

- (i) Social security contributions are included as part of compensation of employees and are not separately counted in national income.
- (ii) Pension payments after retirement are excluded from national income as they are considered transfer payments.

153. Giving reasons, explain the treatment assigned to the following while estimating National Income:

- (i) Expenditure on maintenance of a building.
- (ii) Expenditure on adding a floor to the building.

Ans :

SQP 2011

- (i) Expenditure on building maintenance is excluded from national income as it is intermediate expenditure, not final expenditure.
- (ii) Expenditure on adding a floor to a building is included in national income as it contributes to domestic capital formation.

154. Giving reasons, explain the treatment assigned to the following while estimating National Income:

- (i) Payment of income tax by a firm.
- (ii) Festival gift to employees.

Ans :

COMP 2015

- (i) Income tax paid by a firm is already accounted for under corporate tax and is not separately included in national income.
- (ii) Festival gifts to employees are part of compensation of employees and are included in national income.

155. Giving reasons, explain the treatment assigned to the following while estimating National Income:

- (i) Subsidy on the output produced
- (ii) Contribution to provident fund by the employees

Ans :

FOREIGN 2017

- (i) Subsidy on output is excluded from national income as it is a unilateral transfer payment by the government to firms.
- (ii) Employees' contributions to provident funds are not separately included as they are already part of wages and salaries.

156. Giving reasons, explain the treatment assigned to the following while estimating National Income:

- (i) Contribution to provident fund by the employers.
- (ii) Free dress provided to nurses by the hospital.

Ans :

OD 2015

- (i) Employers' contributions to the provident fund are included in national income as they form part of employees' compensation.
- (ii) Free dresses provided to nurses by the hospital are included in national income as they are also part of employees' compensation.

157. Giving reason explain how should the following be treated in estimating National Income:

- (i) Expenditure on fertilizers by a farmer.
- (ii) Purchase of tractor by a farmer.

Ans :

DELHI 2012

- (i) Expenditure on fertilizers by a farmer is excluded from national income as it is an intermediate cost and part of the value of output, not national income.
- (ii) Purchase of a tractor by a farmer is included in national income as it represents an investment.

158. Giving valid reasons, explain how the following would be treated while estimating National income:

- (i) Payment of indirect taxes by a firm.
- (ii) Purchase of goods by foreign tourists.

Ans :

SQP 2022

- (i) Indirect tax payments by firms are excluded from National Income estimates as they are transfer payments with no corresponding services provided by the government.
- (ii) Expenditures by foreign tourists on domestic products are considered exports of goods and services, hence included in National Income calculation.

159. Giving reason explain how should the following be treated in estimating National Income:

- (i) Payment of bonus by a firm
- (ii) Payment of interest on a loan taken by an employee from the employer.

Ans :

OD 2012

- (i) Bonus is part of employee compensation and is included in National Income as it reflects payment for services rendered.
- (ii) Interest on loans taken by employees for consumption is excluded from National

Income as it does not contribute to production or income generation.

160. Giving reason explain how should the following be treated in estimating National Income:

- (i) Interest paid by banks on deposits by individuals.
- (ii) National debt interest.

Ans :

OD 2012

- (i) Interest paid by banks to individuals is included in National Income as it represents a factor payment for the use of capital by producers.
- (ii) Interest on national debt is excluded from National Income since it is a transfer payment for loans used for government consumption, not production.

161. Should the following be treated as final expenditure or intermediate expenditure? Give reasons for your answer.

- (i) Purchase of furniture by a firm
- (ii) Expenditure on maintenance by a firm.

Ans :

OD 2012

- (i) A firm's purchase of furniture is considered final expenditure as it qualifies as investment, contributing to National Income.
- (ii) Maintenance expenditure by a firm is intermediate expenditure since it is recurring and does not involve permanent investment, excluding it from National Income.

162. Giving reason, explain how should the following be treated while estimating National Income:

- (i) Expenditure on free services provided by government.
- (ii) Payment of interest by a government firm.

Ans :

OD 2017

- (i) Government's final consumption expenditure is included in National Income as it reflects spending on goods and services for public welfare.
- (ii) Interest paid on loans for productive purposes is included in National Income as it constitutes a factor payment by producers.

163. How should the following be treated while estimating National Income? Give reasons.

- (i) Expenditure on education of children by a family.
- (ii) Payment of electricity bill by a school.

Ans :

SQP 2012

- (i) A family's expenditure on children's education is final consumption expenditure, representing payment for services and is included in National Income.
- (ii) A school's electricity payment is an intermediate cost, used to calculate value-added and is not directly included in National Income.

164. How should the following be treated in the calculation of national income? Give reasons for your answer.

- (i) Government expenditure on street lighting.
- (ii) Sale of an old house

Ans :

OD 2016

- (i) Government expenditure on street lighting is included in National Income as it represents final consumption expenditure in the expenditure method.
- (ii) Sale of an old house is not included in National Income since it does not contribute to the current production of goods and services; it was accounted for when first constructed.

165. How are the following treated while calculating national income? Give reasons for your answer.

- (i) Receipts from sale of land
- (ii) Profits earned by the branch of an Indian bank in France.

Ans :

COMP 2016

- (i) Receipts from land sales are excluded from National Income as land is a natural resource and its sale does not involve current production.
- (ii) Profits from an Indian bank branch in France are included in National Income as they represent factor income earned by an Indian resident from abroad.

166. How should the following be treated while calculating national income? Give reasons for your answer:

- (i) Profits earned by a branch of foreign bank in India.
- (ii) Salary received by Indian employees working in American embassy in India.

Ans :

SQP 2016

- (i) Profits earned by a foreign bank's branch in India are considered factor income to abroad and are not included in National Income.

- (ii) Salaries received by Indian employees in the American embassy in India are included in National Income as factor income from abroad.

167. How should the following be treated while calculating national income? Give reasons for your answer.

- (a) Interest received by households from banks.
(b) Dividend received by shareholders.

Ans :

DELHI 2016

- (i) Interest received by households from banks is included in National Income as it represents factor income earned from productive activities by a production unit.
(ii) Dividends received by shareholders are included in National Income as they are part of profits distributed by production units to their owners.

168. Giving reason, explain how are the following treated in estimating National Income by the income method:

- (i) Interest on a car loan paid by an individual.
(ii) Interest on a car loan paid by a government-owned company.

Ans :

FOREIGN 2010

- (i) Interest on a car loan paid by an individual is not included in National Income because it is taken for consumption purposes and does not contribute to production.
(ii) Interest is included in National Income only if it relates to loans taken for investment purposes, contributing to productive activities.

169. Explain the interdependence between the two economic units in a two sector circular flow model.

Ans :

DELHI 2011

In a two-sector circular flow model without government or foreign trade, the economy comprises two units : firms and households. Households provide factor services (like labor, capital) to firms and earn income in return. This income is fully spent on goods and services produced by firms, creating a continuous flow of income and expenditure within the economy.

170. Giving reason, explain how are the following treated in estimation of National Income by the income method:

- (i) Interest paid by banks to depositors.

- (ii) National debt interest.

Ans :

SQP 2010

- (i) Interest paid by banks to depositors is included in National Income as it represents income earned by depositors from funds used by banks for productive purposes.
(ii) National debt interest is not included in National Income as it is a transfer payment, reflecting loans used for both productive and non-productive purposes.

171. State the three components of Income from Property and Entrepreneurship.

Ans :

COMP 2020

Income from property and entrepreneurship, known as Operating Surplus, comprises :

Rent : Income from land.

Interest : Earnings from capital.

Royalty : Income from patents or copyrights.

Profit : Includes dividend, corporate tax and retained earnings (undistributed profits).

172. Are all producer goods capital goods? Give reason.

Ans :

SQP 2020

Producer goods include intermediate goods, such as raw materials and capital goods, like machinery. Thus, while all capital goods are producer goods, not all producer goods qualify as capital goods.

173. Can any value addition be made to final goods?

Ans :

OD 2015

Final goods are those that are outside the production boundary, ready for sale and used by the ultimate consumer for consumption or investment. These goods undergo no further value addition.

174. Is there any difference between GDP_{MP} and GDP_{FC} in a two sector economy?

Ans :

FOREIGN 2019

In a two-sector economy with only firms and households, there is no government sector. Consequently, there is no difference between GDP at Market Price (GDP_{MP}) and GDP at Factor Cost (GDP_{FC}), as net indirect taxes (indirect taxes minus subsidies) are absent.

175. Why are net exports (i.e., exports – imports) included while estimating domestic income?

Ans :

COMP 2016

Exports are included in National Income as they represent goods and services produced within the domestic territory. Conversely, imports are treated as a negative item since they involve expenditure on goods produced outside the domestic territory.

- 176.** Will expenditure on purchase of second hand plant and machinery from the rest of the world be included while estimating national income. Give reasons for your answer.

Ans :

SQP 2013

A second-hand asset, when freshly purchased, is treated as domestic fixed capital formation and included in National Income estimation. It contributes to the domestic economy's capital stock.

THREE MARK QUESTIONS

- 177.** Define Intermediate consumption and explain it with an example. How is it different from Final consumption?

Ans :

DELHI 2018

Intermediate consumption includes the value of goods and services that a production unit purchases to use completely within the same year or for resale. It is excluded from the domestic income calculation. Examples are raw material stocks or semi-finished goods, like milk for restaurants or cotton for factories. Conversely, final consumption includes goods purchased for consumption or investment, like milk by a consumer or a machine by a producer.

- 178.** 'Domestic services (Household services) performed by a woman are not considered as an economic activity.'
Defend or refute the given statement with valid reason.

Ans :

FOREIGN 2020

I support the statement that domestic services performed by women are not classified as economic activities. This is because these services are driven by love and affection rather than the intent to earn income, making it challenging to assign them a market value. Additionally, such activities do not contribute to the production of goods and services in the economy and are not

conducted within the framework of an organized market structure, further excluding them from the economic activity category.

- 179.** Which among the following are capital goods and which are consumer goods and why?

- (i) A car used as a taxi
- (ii) Refrigerator in a hotel
- (iii) Air-conditioner in a house

Ans :

DELHI 2018

- (i) A car used as a taxi is classified as a capital good because it serves as a long-term investment for the buyer, generating income through its use in business operations.
- (ii) A refrigerator in a hotel is considered a capital good since it represents a long-term investment that supports the hotel owner's business activities.
- (iii) An air conditioner in a house is categorized as a consumer good because it is utilized by the consumer for personal consumption rather than for income-generating purposes.

- 180.** Giving reasons, categorise the following into stocks and flows:

- (i) Losses
- (ii) Capital
- (iii) Production
- (iv) Wealth

Ans :

COMP 2011

(i)	Losses are flows	:	Because they are related to a period of time.
(ii)	Capital is a stock	:	Measured at a point of time.
(iii)	Production is a flow	:	Because it is measured over a period of time.
(iv)	Wealth is a stock	:	As it measured at a point of time.

- 181.** Giving reason, categories the following into stocks and flows:

- (i) Profits
- (ii) Gross domestic product
- (iii) Savings
- (iv) Balance in a bank account

Ans :

OD 2011,2013

- (i) Profits are considered flows because they

are measured over a specific period of time, reflecting the earnings generated during that duration.

- (ii) Gross Domestic Product (GDP) is a flow since it represents the total value of goods and services produced within a specific time frame, usually a fiscal year.
- (iii) Savings are categorized as flows as they accumulate over a period of time, indicating the portion of income not spent during that duration.
- (iv) Balance in a bank account is a stock because it represents the amount available at a specific point in time.

182. What is Gross Domestic Product (GDP)?

Ans :

FOREIGN 2023

The gross monetary value of final goods and services produced within a country's domestic territory in a year is termed the domestic product. It includes the portion of fixed capital consumed during the year, known as depreciation, but excludes net factor income earned from abroad. Gross Domestic Product (GDP) is derived by subtracting 'net factor income from abroad' from Gross National Product (GNP). Represented mathematically :

$GDP = GNP - \text{Net Factor Income from Abroad}$
 $GDP = NNP + \text{Depreciation} - \text{Net Factor Income from Abroad}$

183. Discuss briefly the concept of 'Externalities', with suitable example.

Ans :

OD 2012

Externalities are the unintended benefits or harms caused by an activity of a firm or individual, for which no payment or penalty is imposed. Activities causing harm to others are termed negative externalities.

For instance, factories produce goods that contribute to economic welfare, but they also pollute the environment, adversely affecting people's well-being. While the production of goods enhances welfare, the resulting pollution reduces it. However, this negative impact is not reflected in the GDP measurement.

184. Export are not a part of 'Net Factor Income from abroad.'

Elaborate the reason behind the given statement.

Ans :

COMP 2022

Exports are excluded from Net Factor Income

from Abroad (NFIA) for the following reasons :

- (i) Exports represent the purchase of goods produced domestically by the rest of the world. Since these goods are produced within the domestic territory, they are included in the GDP, not NFIA.
- (ii) Export receipts are the revenue earned by firms from selling their output. They do not constitute factor income, which includes rent, interest, profits and wages earned abroad. Furthermore, exports are a domestic concept, while NFIA pertains to a national concept.

185. Explain the following terms:

- (i) Operating surplus
- (ii) Mixed income
- (iii) Transfer payments.

Ans :

SQP 2013

- (i) Operating Surplus : This is the total of rent, interest and profit. It represents income derived from the ownership of resources or entrepreneurship.
- (ii) Mixed Income : This refers to the combined income of self-employed individuals or own-account workers and profits of unincorporated enterprises that do not maintain formal accounts.
- (iii) Transfer Payments : These are unilateral payments received without contributing to the production of goods and services. As they do not add to the current economic output, they are excluded from National Income. Examples include scholarships awarded to students.

186. Define 'net factor income from abroad'. How is it different from 'net exports'?

Ans :

DELHI 2019

Net Factor Income from Abroad (NFIA) is the difference between what a country's factors of production earn abroad and what foreign factors earn within the country. It is part of the national product but excluded from the domestic product. Net Exports, by contrast, represents the difference between a country's exports and imports.

The key distinction is that net exports are a domestic concept, encompassing non-factor services, while NFIA is a national concept, involving only factor services such as rent, wages, interest and profits.

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- 187.** Define 'value of output'. How is it different from 'value addition'?

Ans :

SQP 2019

The value of all goods and services produced within an accounting year is referred to as the value of output, which includes both intermediate and final goods. Alternatively, it can be calculated as the sum of sales and the change in stock (closing stock minus opening stock) for the year.

Value addition, however, represents the difference between the value of output and intermediate consumption. It reflects the contribution of factors of production during the production process.

- 188.** Explain the following:

- Why are imports deducted while calculating domestic product through the expenditure method?
- Why is 'indirect tax' deducted while estimating national income by expenditure method?

Ans :

COMP 2013

- Net Exports (X - M) : Net exports, calculated as exports (X) minus imports (M), form part of GDP under the expenditure method. Since imports are sourced from the rest of the world, they are excluded from GDP calculations as they do not represent domestic production.
- Expenditure Method and National Income : National income, under the expenditure method, is initially calculated at market prices. To determine national income at factor cost (NNP at FC), indirect taxes are subtracted, as these are included in market prices but do not represent income earned by factors of production.

- 189.** 'Subsidies to the producers, should be treated as transfer payments.' Defend or refute the given statement with valid reason.

Ans :

SQP 2020

I disagree with the statement, as subsidies and transfer payments are distinct concepts. Transfer payments refer to payments made without any exchange of factor services, intended purely to transfer purchasing power to specific groups, such as the elderly or destitute women. Examples include old-age pensions and unemployment allowances, which are excluded from National Income calculations.

On the other hand, subsidies are financial or in-kind support provided by the government to promote economic or social objectives. Subsidies are given to firms or households to enhance general welfare, encourage exports, foster industrialization in backward regions, or boost the production of specific goods. Unlike transfer payments, subsidies contribute to production and are included in National Income.

- 190.** Giving reason state how are the following treated in estimation of national income.

- Payment of interest by an individual to a bank on a loan to buy a car.
- Expenditure by government on providing free educational services.
- Expenditure on purchasing a machine installed in a production unit.

Ans :

OD 2017

- Payment of Interest by a Bank to an Individual : This is excluded from national income estimation because the loan is used for personal consumption purposes, not for production or investment.
- Expenditure on Free Educational Services by the Government : This is included in national income as it constitutes final government expenditure, contributing to the economy's welfare and output.
- Expenditure on a Machine Installed in a Production Unit : This is included in national income since it is a final investment expenditure, directly contributing to production capacity and economic output.

- 191.** Explain why subsidies are added to and indirect taxes are deducted from domestic product at market price to arrive at domestic product at factor cost.

Ans :

OD 2010

A subsidy is a financial grant provided by the government to producers to lower the prices consumers pay. In contrast, indirect taxes are levied on firms and households, increasing the final price of commodities. Subsidies do not impose a financial burden on producers, unlike indirect taxes and are not directly linked to the cost of production. As a result, subsidies are not included in production costs like indirect taxes. To calculate domestic product at factor cost from domestic product at market price, subsidies are added and indirect taxes are subtracted.

192. Giving reason explain how should the following be treated in estimating gross domestic product at market price?

- (i) Fees to a mechanic paid by a firm.
- (ii) Interest paid by an individual on a car loan taken from a bank.
- (iii) Expenditure on purchasing a car for use by a firm.

Ans :

OD 2014

- (i) Fees Paid to a Mechanic by a Firm : This is treated as intermediate expenditure by the firm and, therefore, is not included in GDP at Market Price (GDPMP), as it does not constitute final output.
- (ii) Interest Paid by an Individual on a Car Loan : This is excluded from GDPMP because the loan is used for consumption purposes, not for production or investment and hence does not contribute to the economy's productive output.
- (iii) Expenditure on Purchasing a Car for Use by a Firm : This is included in GDPMP since it is a final investment expenditure, representing a durable asset that contributes to the firm's production activities.

193. How will you treat the following while estimating domestic product of a country? Give reasons for your answer:

- (i) Profits earned by branches of country's bank in other countries.
- (ii) Gifts given by an employer to his employees on independence day.
- (iii) Purchase of goods by foreign tourists.

Ans :

OD 2017

- (i) Profits Earned by a Bank Outside the Domestic Territory : These are excluded from domestic product estimation because they are earned outside the country's domestic territory and are part of net factor income from abroad (NFIA).
- (ii) Gifts Given by Employers to Employees : These are considered transfer or unilateral payments, not linked to the production of goods or services and are therefore excluded from the domestic product calculation.
- (iii) Goods Purchased by Foreign Tourists : These goods are produced within the domestic territory and are treated as exports. They are included in domestic product estimation using the Expenditure Method.

194. How will you treat the following while estimating National Income of India? Give reasons for your answer.

- (i) Dividend received by a foreigner from investment in shares of an Indian company.
- (ii) Profits earned by a branch of an Indian bank in Canada.
- (iii) Scholarship given to Indian student studying in India by a foreign company.

Ans :

OD 2010

- (i) Factor Income to Abroad : This represents income paid to foreign factors of production operating within the domestic territory. It is subtracted from National Income as it does not contribute to the country's domestic economy.
- (ii) Profit Earned by an Indian Bank Abroad : This is considered income earned from abroad and is included in National Income, as it reflects earnings generated by domestic entities outside the country.
- (iii) Transfer Payment : Such payments do not involve the production of goods or services and are therefore excluded from National Income estimation.

195. Will the following be included in the national income of India? Give reason for your answer:

- (i) Financial assistance to flood victims.
- (ii) Profits earned by the branches of a foreign bank in India.
- (iii) Salaries of Indians working in the American Embassy in India.

Ans :

OD 2017

- (i) Financial Assistance to Flood Victims : These are classified as transfer payments since no economic activity occurs in exchange for these payments. Consequently, they are not included in the National Income of India.
- (ii) Profits Earned by Foreign Bank Branches in India : These are excluded from India's National Income as they are considered factor income paid abroad. To calculate National Income, these profits are subtracted from Domestic Income.
- (iii) Salaries of Indians Working in the American Embassy in India : These are included in National Income as they represent factor income received from abroad, given that the American Embassy is considered part of the U.S. domestic territory.

196. Giving reason explain how should the following be treated in estimation of National Income:

- (i) Expenditure by a firm on payment of fees to a chartered accountant
- (ii) Payment of corporate tax by a firm
- (iii) Purchase of refrigerator by a firm for own use

Ans :

OD 2015

- (i) Fees Paid to a Chartered Accountant by a Firm : This is not included in National Income as it is considered intermediate expenditure by the firm and does not contribute to the final output.
- (ii) Payment of Corporate Tax by a Firm : Corporate tax is a transfer payment from the firm to the government and is not directly included in National Income. However, it is accounted for as part of the firm's profit, which is a factor income. Therefore, it should not be separately added to National Income.
- (iii) Purchase of a Refrigerator by a Firm for Own Use : This is included in National Income as it is considered final consumption expenditure by the firm, contributing to economic output.

197. Will the following be included in the domestic product of India? Give reasons for your answer:

- (i) Profits earned by foreign companies in India.
- (ii) Salaries of Indians working in the Russian Embassy in India.
- (iii) Profits earned by a branch of State Bank of India in Japan.

Ans :

OD 2017

- (i) Profit Generated Within India's Domestic Territory : This is included in the domestic product of India because the profit is generated within the country's domestic boundaries.
- (ii) Income Earned in the Russian Embassy : This is not included in India's domestic product because the embassy is considered part of Russia's domestic territory, not India's.
- (iii) Profits Earned in Japan : These are excluded from India's domestic product since they are generated in Japan, which is outside India's domestic territory.

198. How will you treat the following while estimating National Income of India?

- (i) Dividend received by an Indian from his investment in shares of a foreign company.
- (ii) Money received by a family in India from relatives working abroad.

- (iii) Interest received on loans given to a friend for purchasing a car.

Ans :

OD 2012

- (i) Dividend as Factor Income from Abroad : Dividend is a component of profit and represents factor income from abroad. Since it contributes to domestic income, it is included in the estimation of National Income.
- (ii) Exclusion of Non-Productive Payments : Payments that are not a result of the production or flow of goods and services are excluded from National Income, as they do not reflect economic output.
- (iii) Loan for Consumption Purposes : Loans taken for consumption purposes are not included in National Income estimation, as they do not correspond to the flow of goods and services within the economy.

199. How should the following be treated in estimating national income of a country? You must give reason for your answer.

- (i) Taking care of aged parents.
- (ii) Payment of corporate tax.
- (iii) Expenditure on providing police services by the government.

Ans :

COMP 2014

- (i) Taking Care of Aged Parents : This is a non-economic activity as it arises from love and affection, which cannot be monetarily measured. Hence, it is excluded from National Income estimation.
- (ii) Payment of Corporate Tax : Corporate tax is a part of profit, which is already included in National Income. Therefore, it is not accounted for separately in National Income.
- (iii) Expenditure on Police Services by the Government : This is included in National Income as it forms part of government final consumption expenditure, contributing to the economy's overall output.

200. Giving reason explain how should the following be treated in estimating national income:

- (i) Electricity consumed by a firm.
- (ii) Pension paid to the retired employees.
- (iii) Free treatment of the poor in hospitals.

Ans :

COMP 2013

- (i) Electricity Consumed by a Firm : This is excluded from National Income because it is an intermediate product. Including it would

lead to double counting, as electricity is already accounted for when produced.

- (ii) Pension Paid to Retired Employees : This is not included in National Income since it is a transfer payment, representing income without any corresponding productive activity.
- (iii) Free Treatment of the Poor in Hospitals : This is excluded from National Income as it is a transfer payment. Free treatment is provided without any productive service in return, thus not contributing to economic output.

201. Giving reasons, state whether the following statements are true or false.

- (i) Real gross domestic product can be equal to nominal gross domestic product.
- (ii) Savings are a stock.
- (iii) Butter is only a final product.

Ans :

COMP 2012

- (i) True : Real Gross Domestic Product (GDP) and Nominal GDP will be equal if the price level remains constant, as there would be no need to adjust for inflation or deflation.
- (ii) False : Savings are always measured over a specific time period, making them a flow variable, not a stock.
- (iii) False : Butter is a final product only when purchased by households for consumption. When bakeries buy butter to produce cakes and pastries, it is considered an intermediate good, as it serves as raw material for further production.

202. What are externalities? Give an example of a positive externalities and its impact on welfare of the people.

Ans :

DELHI 2014

Externalities are the unintended benefits or harms resulting from the activities of a firm or individual, for which they are neither compensated nor penalized. Positive externalities arise when activities benefit others. For instance, the construction of a flyover or highway reduces transport costs and journey times for users. While the expenditure on construction is included in GDP, the welfare gains from positive externalities are not accounted for. This suggests that actual welfare exceeds the level indicated by GDP.

203. How will you treat the following in the calculation of Gross Domestic Product of India? Give reasons for your answer.

- (i) Profits earned by a branch of foreign bank in India.
- (ii) Salaries of Indian employees working in embassy of Japan in India.
- (iii) Salary of residents of Japan working in Indian embassy in Japan.

Ans :

COMP 2012

- (i) Profits Earned by a Branch of a Foreign Bank in India : These profits are included in the domestic product of India because the bank operates within India's domestic territory, contributing to domestic economic activity.
- (ii) Salaries of Indian Employees Working in the Embassy of Japan in India : These are not part of India's domestic product as the Embassy of Japan is considered part of Japan's domestic territory, not India's.
- (iii) Salaries Paid to Residents of Japan Working in the Indian Embassy in Japan : These are included in the domestic product of India because the Indian Embassy in Japan is considered part of India's domestic territory.

204. Giving reason explain how the following should be treated in estimation of national income:

- (i) Payment of interest by a firm to a bank
- (ii) Payment of interest by a bank to an individual
- (iii) Payment of interest by an individual to a bank

Ans :

OD 2015

- (i) Payment of Interest by a Firm to a Bank : This is included in National Income since the interest is paid on a loan taken for productive purposes. It is a factor payment made by a producer for utilizing financial resources.
- (ii) Payment of Interest by a Bank to an Individual : This is considered a factor payment as the bank borrows funds to facilitate its banking services. Therefore, it is included in National Income.
- (iii) Payment of Interest by an Individual to a Bank : This is not included in National Income because it is a non-factor receipt. The loan is used for consumption purposes rather than production, making it irrelevant to economic output.

- 205.** How does increase in inequalities in distribution of income affect welfare of the society? Explain.

Ans :

COMP 2017

An increase in inequality implies that the rich grow richer while the poor become poorer. Even if a country's GDP rises, it does not guarantee an improvement in overall welfare. This occurs when the additional income from increased GDP is concentrated in the hands of a few, while others may experience a decline in income. Since the utility of money is greater for the poor than for the rich, rising inequalities may reduce the overall welfare of society despite economic growth.

- 206.** Explain how 'externalities' are a limitation on taking gross domestic product as an index of welfare.

Ans :

FOREIGN 2011

Externalities are the unintended benefits or harms caused by a firm or individual to others, without compensation or penalty. They do not operate within any market system where they can be bought or sold. Positive externalities improve welfare without direct payment, such as when a well-maintained garden by Mr. X enhances Mr. Y's enjoyment. However, such benefits are not reflected in GDP calculations. Negative externalities cause harm, like factory emissions causing air or water pollution. While the factory's output contributes to GDP, the environmental damage reduces social welfare and no penalties or valuations are incorporated into GDP. Consequently, GDP as a welfare index is imprecise, as it may either underestimate or overestimate actual welfare.

- 207.** "In the past few decades, Indian economy has been fairly benefited by positive externalities created by rapid rise in infrastructure." Justify the given statement with valid arguments.

Ans :

SQP 2024

A positive externality refers to the benefits arising from the production or consumption of a product. Investments in good infrastructure yield significant positive externalities. They reduce commute times, ensure access to clean water and energy and provide safe public spaces for recreation, enabling individuals to lead more balanced lives with time for personal development. Moreover, infrastructure enhances employment, healthcare and education quality. Clean energy and public

transport reduce greenhouse gas emissions, while reliable infrastructure streamlines supply chains and facilitates efficient cross-border movement of goods and services. Thus, infrastructure investment directly and positively impacts economic growth.

- 208.** What is real GDP? State three limitations of GDP as an index of economic welfare.

Ans :

COMP 2016

National Income calculated at constant prices is referred to as real GDP. However, a higher GDP does not always equate to greater welfare for the following reasons :

- (i) Unequal Income Distribution : GDP does not account for income distribution, meaning that the additional income generated might be concentrated in the hands of a few, leaving others with stagnant or declining welfare.
- (ii) Exclusion of Non-Monetary Exchanges : Non-monetary activities, such as domestic services provided by housewives, are excluded from GDP calculations, despite their significant contribution to societal well-being.
- (iii) Externalities : GDP does not measure the positive or negative externalities of economic activities. For example, environmental pollution caused by production harms social welfare, which is not reflected in GDP figures.

- 209.** Gross Domestic Product (GDP) does not give us a clear indication of economic welfare of a country." Defend or refute the given statement with valid reason.

Ans :

SQP 2011

- (i) Unequal Income Distribution : GDP does not account for the distribution of income, so an increase in GDP may benefit only a few, leaving a large section of the population unaffected.
- (ii) Exclusion of Non-Monetary Exchanges : Non-monetary contributions, such as domestic services provided by housewives, are excluded from GDP calculations despite their significant role in enhancing welfare.
- (iii) Externalities : GDP ignores the positive or negative impacts of economic activities that do not involve direct rewards or penalties. For instance, environmental pollution is a negative externality that harms welfare but is not reflected in GDP.

- 210.** Explain how 'distribution of gross domestic product' is a limitation in taking gross domestic product as an index of welfare.

Ans :

DELHI 2011

The distribution of increased Gross Domestic Product (GDP) significantly impacts economic welfare. If a rise in GDP leads to greater income inequalities, the resultant improvement in economic welfare may not align with the GDP growth. In such cases, the gap between the rich and the poor widens. Notably, an increase in the welfare of the rich contributes less to overall welfare compared to a similar increase in the welfare of the poor, due to the diminishing marginal utility of income among the wealthy.

- 211.** Explain how 'non-monetary exchanges' are a limitation in taking gross domestic product as an index of welfare.

Ans :

OD 2011

Many activities, such as domestic services performed by women at home, are not evaluated in monetary terms. If these services were hired from the market, their payments would have been included in Gross Domestic Product (GDP). Consequently, the exclusion of such non-monetary exchanges results in an underestimation of GDP. This underestimation negatively impacts the assessment of economic welfare, as it fails to account for significant contributions to societal well-being that are not captured in monetary terms.

- 212.** Management of a water polluting oil refinery says that it (oil refinery) ensures welfare through its contribution to Gross Domestic Product."

Defend or refute the argument of management with respect to GDP as a welfare measure of the economy.

Ans :

FOREIGN 2020

An increase in per capita real GDP generally suggests greater availability of goods and services, implying enhanced economic welfare. However, GDP may not accurately reflect true welfare due to its limitations. For instance, an oil refinery contributes to GDP but harms economic welfare by causing water pollution, a negative externality. This pollution adversely impacts public health, reducing overall welfare. Since GDP does not account for such negative externalities, it overestimates actual welfare. Thus, the statement that GDP reliably indicates economic welfare is refuted.

- 213.** "Many goods and services which may contribute to welfare, but are not included in estimating Gross Domestic Product (GDP)."

Do you agree with the given statement? Give valid reason in support of your answer.

Ans :

SQP 2023

I agree with the statement. GDP does not account for transactions that are not expressed in monetary terms, which is a significant limitation as an index of a country's welfare. Many non-monetary activities, though crucial for growth and development, are excluded due to the absence of authentic data. For instance, services provided by housewives or social workers, often motivated by love and affection, are not evaluated in monetary terms and therefore not included in GDP calculations.

Such non-market transactions significantly enhance economic welfare, yet their exclusion leads to an underestimation of welfare, making GDP an incomplete measure of a nation's well-being.

- 214.** Is gross domestic product a true index of economic welfare of the people? Give two reasons in support of your answer.

Ans :

COMP 2014

Welfare refers to a sense of well-being, influenced by both economic and non-economic factors. While GDP can be an indicator of economic welfare, it has significant limitations :

- (i) Externalities : These are unintended benefits or harms caused by an activity that are not accounted for in market transactions. Since GDP excludes these effects, it may either underestimate or overestimate welfare. For example, pollution from industries harms social welfare, while a public park enhances it, but neither is reflected in GDP.
- (ii) Non-Monetary Exchanges : Activities like services provided by housewives or self-produced goods, which contribute to welfare, are excluded from GDP calculations due to challenges in data collection and valuation. Consequently, GDP fails to capture their impact on welfare accurately.

- 215.** How can distribution of income be a limitation of using gross domestic product as an index of welfare? Explain.

Ans :

OD 2011

The distribution of increased national income is a critical factor in assessing its impact. A rise in national income does not guarantee that all individuals' incomes increase proportionately. Some may experience greater gains, while others might see little or even a decline in their income. This unequal distribution can lead to increased income inequalities, which negatively impact the overall economic welfare of society. Thus, to evaluate the true effect of a rise in national income, it is essential to determine whether it reduces or exacerbates income inequalities.

- 216.** Government incurs expenditure to popularize yoga among the masses. Analyses its impact on gross domestic product and welfare of the people.

Ans :

DELHI 2016

By promoting yoga among the masses, the government aims to foster health awareness and encourage a healthier lifestyle. Over time, this initiative will benefit both society and the economy. Adopting healthy habits will enhance the physical and emotional well-being of individuals, contributing to overall welfare. A healthy workforce positively impacts GDP by improving productivity and efficiency, increasing stamina and reducing absenteeism. These improvements result in higher output and greater availability of goods and services per person, further enhancing the economic welfare of the population.

- 217.** Sale of petrol and diesel cars is rising particularly in big cities. Analyses its impact on gross domestic product and welfare.

Ans :

OD 2016

The final sale of cars contributes to GDP as cars are considered final products, providing transportation convenience and enhancing welfare. However, the increased sale of petrol and diesel cars, especially in big cities, leads to significant negative externalities. Air and noise pollution caused by vehicle emissions release harmful gases, adversely affecting citizens' health, including respiratory problems and other health issues. These negative externalities diminish societal welfare and can have a detrimental impact on GDP over time due to increased healthcare costs and reduced productivity. Thus, while car sales boost GDP, the associated harms reduce overall welfare.

- 218.** Suppose a ban is imposed on consumption of liquor/tobacco in the country. Examine its effects on:

- (i) gross domestic product and
- (ii) welfare.

Ans :

OD 2017)

- (i) Gross Domestic Product (GDP) : Imposing a ban on the consumption of liquor or tobacco will reduce their demand, subsequently lowering their production. Since production contributes to GDP, this decline will result in a decrease in GDP.
- (ii) Welfare : Despite their widespread consumption, liquor and tobacco are detrimental to consumer health. A ban on their consumption will likely enhance societal welfare by improving public health and reducing the negative externalities associated with their use.

- 219.** As per The Economic Times report, dated April 11, 2023 "Electric Vehicle sales cross 10 Lakh mark in financial year 2022-23." Analyses the likely impacts of this news on Gross Domestic Product (GDP) and Welfare.

Ans :

COMP 2024

The increased sales of electric vehicles positively impact both GDP and welfare. Higher sales directly contribute to economic value addition, boosting Gross Domestic Product (GDP).

Electric vehicles are environmentally friendly, reducing carbon emissions and mitigating the harmful effects of pollution. This improvement in air quality enhances public health, reduces healthcare costs and promotes overall welfare. Thus, the shift towards electric vehicles supports economic growth while contributing to a healthier and more sustainable environment.

- 220.** Explain 'non-monetary exchanges' as a limitation of using gross domestic product as an index of welfare of a country.

Ans :

OD 2017

GDP does not account for transactions not expressed in monetary terms, which is a significant limitation as an index of a country's welfare. Many non-monetary activities, such as services provided by housewives or social workers, contribute to national growth and welfare but are excluded from GDP due to the lack of authentic data and valuation challenges. These non-market activities,

driven by love and affection, enhance economic welfare. Consequently, GDP underestimates true welfare and may not accurately reflect the overall well-being of a nation.

- 221.** Calculate Intermediate consumption from the following information:

	Items	(₹ in crores)
(i)	Value of output	200
(ii)	NVA_{FC}	80
(iii)	Customs duty	15
(iv)	Depreciation	20
(v)	Rent	5

Ans :

SQP 2011

$$NVA_{FC} = (i) - \text{Intermediate Consumption} - (iv) - (iii)$$

$$80 = 200 - \text{Intermediate Consumption} - 20 - 15$$

$$\text{Intermediate consumption} = ₹85 \text{ crore}$$

- 222.** Calculate sales from the following:

	Items	(₹ in crores)
(i)	Subsidies	200
(ii)	Opening stock	100
(iii)	Closing stock	600
(iv)	Intermediate consumption	3000
(v)	Consumption of fixed capital	700
(vi)	Profits	750
(vii)	NVA_{FC}	2000
(viii)	Exports	100

Ans :

COMP 2010

$$NVA_{FC} = \text{Sales} + (iii) - (ii) - (iv) - (v) + (i)$$

$$2000 = \text{Sales} + 600 - 100 - 3000 - 700 + 200$$

$$\text{Sales} = ₹5,000 \text{ crore}$$

- 223.** Are the following residents of India? Give reason:

- Indian going abroad for medical treatment.
- Foreigners working in Indian embassy.
- Indians working in the office of the United Nations Organization in India.

Ans :

OD 2000

- Yes, as visit for medical treatment is a short period visit.
- No, as they are residents of the country to which they belong.

- Yes, as their centre of economic interest lies in India.

- 224.** During a given year nominal national income increased by 14% while the real national income increased by only 6%. Population increased by 2%. What has caused the difference between nominal income and real income. What is the rise in the real per capita income?

Ans :

COMP 2017

Nominal income can change on account of –

- change in quantity of goods and services produced and
- change in price level. However, real national income changes only on account of changes in quantity of goods and services.

Therefore, a change of 14% in nominal national income is partly on account of 6% change in quantity of goods and services and the remaining 8% must be on account of rise in general price level.

Rise in real per capita income

$$= \text{Rise in real national income} - \text{Rise in population}$$

$$= 6\% - 2\% = 4\%$$

- 225.** Explain the basis of classifying goods into intermediate and final goods. Give suitable examples.

Ans :

DELHI 2010

Intermediate goods are products or services bought by one production unit from another and are entirely consumed or resold within the same year, such as tires used in car manufacturing. Final goods are either purchased or self-produced for consumption or investment purposes. Examples include bread bought by households or machines purchased by firms.

- 226.** What is Gross Domestic Product (GDP)?

Ans :

FOREIGN 2023

The gross monetary value of final goods and services produced within a country's domestic territory in a year is termed the domestic product. It includes the portion of fixed capital consumed during the year, known as depreciation, but excludes net factor income earned from abroad. Gross Domestic Product (GDP) is derived by subtracting 'net factor income from abroad' from Gross National Product (GNP). Represented mathematically :

$$GDP = GNP - \text{Net Factor Income from Abroad}$$

$$GDP = NNP + \text{Depreciation} - \text{Net Factor Income from Abroad}$$

FOUR MARK QUESTIONS

227. Explain the circular flow of income.

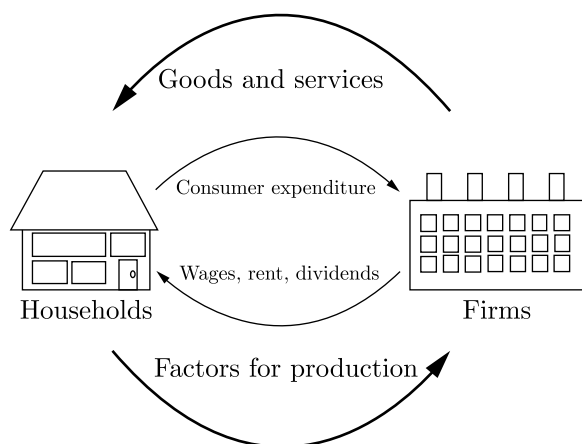
or

Discuss briefly, the circular flow of income in a two sector economy model.

Ans :

OD 2016,2024

The flow of production, income generation and expenditure involving different sectors of the economy in the form of wages, rent and dividends, is known as circular flow of income (as shown in the diagram). Production gives rise to income (factor incomes), which in turn gives rise to demand for goods and services. Circular flow of income refers to continuous circular movement of aggregate value of goods and services between households and firms, either as factor payments, or as expenditure on goods and services. In an economy, money keeps on flowing in the form of income and expenditure among the different sectors of the economy.



This demand leads to expenditure by households on goods and services produced. The movement of factor payments from production units to households and that of payment for goods and services from households to firms is called money flow as shown by the outer loop in the given diagram. In this way income generated by production units goes back to production units and makes the circular flow complete.

228. Government of India has recently launched ‘Jan Dhan Yojna’ aimed at every household in the country to have at least one bank account. Explain how deposits made under the plan are going to affect National Income of the country.

Ans :

DELHI 2015

The ‘Jan Dhan Yojana’ aims to provide every household with at least one bank account, integrating demand deposits into the money supply. This initiative impacts national income as follows :

- Increased bank accounts lead to more deposits, expanding the money supply.
- With the legal reserve ratio constant, higher deposits enhance banks’ capacity for money or credit creation.
- Greater deposits boost banks’ lending capacity.
- Increased lending promotes investment and capital formation in the economy.
- Consequently, aggregate demand grows, driving an increase in the country’s national income.

229. Distinguish between stocks and flows. Give two examples of each.

Ans :

OD 2013

Difference between Stocks and Flows

	Basis	Stocks	Flows
1.	Meaning	Stocks relate to a point of time.	Flows relate to a period of time.
2.	Time Dimension	Stocks do not have time dimension.	Flows have a time dimension.
3.	Affect-ability	Stocks are affected by flows, e.g., more is the saving, more is the stock of capital.	Flows are affected by stocks, e.g., more is the stock of capital, more is the volume of output.
4.	Relativity	Some stocks have related flows such as money supply and change in money supply.	Some flows have related stocks, such as flow of water and quantity of water in a tank.
5.	Example	Its examples are Wealth, Stock of capital etc.	Its examples are Raw materials, Fuel etc.

- 230.** Explain the problem of double counting in estimating National Income with the help of an example. Also explain two alternative ways of avoiding the problem.

Ans :

OD 2010

While estimating national product, the value of a commodity should be counted only once. If the value of a commodity is counted more than once, this is known as the problem of double counting, such as counting the value of sugarcane and sugar both. Here, sugarcane used as raw material in the production of sugar has been counted twice. In the given example, we should only count the value of sugar which is a final product. Sugarcane is a raw material or an intermediate good. Therefore, while calculating the national product, value of intermediate goods should not be counted. In this way, by finding the value of final goods, the problem of double counting can be solved.

The problem of double counting can be solved with the help of value added method also. This can be explained with the help of the example of production of sugar taken above. Let us say that the value of sugarcane is ₹1,000 and that of sugar ₹1,500. Here, in the first production stage, where sugarcane is produced, value added is ₹1,000 (sale price - cost of production) and during the second and final production stage where sugar is manufactured, value added is ₹500 (₹1,500 - ₹1,000). Therefore total value added is ₹1,500 (₹1,000 + ₹500) which is equal to the value of final product i.e., sugar.

This can be understood well looking at the value-added statement given below:

	Production Stage	Sale Price	Cost	Value added	Expenditure on Final Product
1.	Sugarcane	1,000	Zero	1,000	...
2.	Sugar	1,500	1,000	500	1,500

Thus, the problem of double counting can be avoided either by finding value added or by finding the value of final goods.

- 231.** State the steps pertaining to the estimation of National Income by Value Added Method.

Ans :

COMP 2024

The process of estimating national income using the Value Added Method (Product Method) involves these steps :

- (i) **Classify Producing Units :** Identify all producing units in the domestic economy and group them into three industrial sectors,

secondary and tertiary based on their activities.

- (ii) **Calculate Net Value Added at FC :** For each unit, determine Net Value Added at Factor Cost (NVA at FC) by subtracting intermediate consumption, depreciation and net indirect taxes from the value of output.
- (iii) **Aggregate by Sector :** Sum the NVA at FC of all producing units within each industrial sector to find the sector's total NVA at FC.
- (iv) **Compute Domestic Income (NDP at FC) :** Add the NVA at FC of all industrial sectors to derive Domestic Income.
- (v) **Add NFIA :** Include Net Factor Income from Abroad (NFIA) to Domestic Income to calculate National Income (NNP at FC).

- 232.** State the steps pertaining to the estimation of National Income by Income Method.

Ans :

SQP 2024

Steps involved in estimating national Income by Income Method:

Step 1 : Identify and classify the production units. All the producing enterprises employing various factors of production are identified and classified into primary, secondary and tertiary sectors.

Step 2 : Estimate the factor income paid by each sector.

The factor incomes paid by each sector are classified under the following heads :

- (i) Compensation of employees;
 (ii) Rent and Royalty;
 (iii) Interest;
 (iv) Profit;
 (v) Mixed Income.

Step 3 : Calculate Domestic Income (NDP_{FC}). When factor incomes of all the sectors are summed up, we get domestic income (NDP_{FC}). In short, $NDP_{FC} = \text{Compensation of Employees} + \text{Rent and Royalty} + \text{Interest} + \text{Profit} + \text{Mixed Income}$

Step 4 : Estimate net factor income from abroad (NFIA) to arrive at National Income.

In the final step, NFIA is added to domestic income to arrive at National Income (NNP_{FC}), i.e., $NNP_{FC} = NDP_{FC} + \text{Net factor income from abroad}$.

- 233.** Describe the expenditure method of calculating Gross Domestic Product at market price.

Ans :

OD 2015,2024

In the final expenditure method of calculating National Income, we take the sum of final expenditures on consumption and investment. This sum equals GDPMP. These final expenditures are on the output produced within the domestic territory of the country.

Its main components are –

- (i) Private final consumption expenditure;
- (ii) Government final consumption expenditure.
- (iii) Gross domestic capital formation:
 - (a) Gross domestic fixed capital formation
 - (b) Change in stock (Closing stock - Opening stock)
- (iv) Net Exports (Exports – Imports)

The following steps are involved in calculating National Income by Expenditure method:

1. Identify and classify the economic units incurring final expenditure into (a) Household sector, (b) Government sector, (c) Firms, (d) Rest of the world.
2. Final expenditure incurred by these economic units is estimated and classified under the following heads, the sum of which gives us Gross Domestic Product at Market Price (GDP_{MP}).

$$GDP_{MP} = \text{Private final consumption expenditure} \\ + \text{Government final consumption expenditure} \\ + \text{Gross Domestic Capital Formation} \\ + \text{Net Exports}$$

- 234.** State any four precautions that are taken while calculating national income by expenditure method.

Ans :

OD 2016

Precautions for the expenditure method in national income estimation are :

- (i) Exclude Intermediate Expenditure : Avoid including intermediate goods expenditure as it is already part of final expenditure; counting it again causes double counting.
- (ii) Exclude Second-Hand Goods Purchases : Expenditure on second-hand goods is excluded since it was accounted for when first purchased. However, payments for related services like brokerage or commission are included as productive services.
- (iii) Omit Transfer Payments : Payments like donations and charities are excluded as they are non-productive and do not add value.
- (iv) Include Own Account Production : Expenditure on self-consumed goods or imputed rent of owner-occupied houses is

included since they represent productive services.

- (v) Exclude Shares and Bonds : These are financial claims and do not contribute to the flow of goods or services, so they are excluded.

- 235.** “While estimating Gross Domestic Product (GDP) by expenditure method, entire focus is on expenditures incurred by the residents of the country.”

Do you agree with the given statement? Give valid reason in support of your answer.

Ans :

SQP 2023

Disagree with the statement because the expenditure method emphasizes final expenditure on goods and services (consumption and capital) produced within the domestic territory. These goods can be purchased by :

- (i) Residents : Reflected as Private Final Consumption Expenditure.
- (ii) Government : Included as Government Final Consumption Expenditure.
- (iii) Firms and Government : Represented by Gross Domestic Capital Formation.
- (iv) Non-Residents : Accounted for as Net Exports (exports minus imports).

Imports are subtracted as they are not produced domestically. Thus, the expenditure method focuses only on expenditures contributing to domestic production.

- 236.** What (any four) precautions should be taken while estimating national income by income method?

Ans :

COMP 2015

Precautions for the Income Method in national income estimation are :

- (i) Exclude Transfer Incomes : Receipts like scholarships and donations are excluded as they do not arise from productive activities.
- (ii) Exclude Income from Second-Hand Goods : Such income is not included because the original sale has already been accounted for.
- (iii) Exclude Income from Shares and Bonds : Earnings from shares, bonds and debentures are not included as they do not contribute to the current flow of goods and services but represent paper claims and ownership changes.
- (iv) Exclude Windfall Gains : Profits from lotteries and similar activities are omitted since they are unrelated to productive efforts.

237. With suitable examples, distinguish between final goods and intermediate goods.

Ans :

FOREIGN 2023

Difference between Intermediate goods and Final goods

	Basis	Intermediate goods	Final goods
1.	Meaning	Intermediate goods refer to those goods which are used either for resale or for further production in the same year.	Final goods refer to those goods which are used either for consumption or for investment.
2.	Nature	They are not included in both national and domestic income.	They are included in both national income as well as Domestic income.
3.	Demand	They have a derived demand as their demand depends on the demand for final goods.	They have a direct demand as they satisfy the wants directly.
4.	Boundary line	These goods are still within the production boundary line.	These are those goods which have crossed the boundary of consumption or investment.
5.	Example	Intermediate goods are used by the industry to produce final goods. Example, Wheat and sugar are intermediate goods for a bakery that produces bread and biscuits.	These goods are used by house holds for consumption. for example, Wheat and sugar are final goods for a consumer.

238. Explain the precautions that are taken while estimating national income by value added method.

Ans :

OD 2017

Precautions for measuring national income using the Value Added Method include :

- Exclude Second-Hand Goods : Their sale and purchase are omitted since they were included in earlier years. However, brokerage or commission earned on such transactions is included as it facilitates a productive activity.
- Include Production for Self-Consumption : The imputed value of self-consumed goods is added as it contributes to current output.

- Include Imputed Rent : Rent of owner-occupied houses is imputed and included.
- Avoid Intermediate Goods : Their value is excluded to prevent double counting, as it is already part of final goods' value.
- Include Fixed Capital Assets : Own-account production of fixed capital assets by production units is considered, as these are produced for the market.
- Include Retained Goods : The value of goods retained for self-consumption is added.

239. Distinguish between Nominal Gross Domestic Product and Real Gross Domestic Product.

Ans :

DELHI 2010

Difference between Nominal GDP and Real GDP

	Basis	Nominal GDP	Real GDP
1.	Meaning	The aggregate market value of the economic output produced in a year within the boundaries of the country is known as Nominal GDP.	Real GDP refers to the value of economic output produced in a given period, adjusted according to the general price level.
2.	Inflation	Nominal GDP does not take into consideration the effects of inflation.	Real GDP adjusts the inflation into it.
3.	Expressed in	Current year prices.	Base year prices or constant prices.
4.	Value	It gives higher value.	It generally gives the lower value.
5.	Uses	Comparison of various quarters of the given year can be made.	Comparison of two or more financial year can be done easily.
6.	Economic growth	Economic growth cannot be analysed easily.	It is the good indicator of economic growth.

240. How is Real Gross Domestic Product (GDP) different from Nominal Gross Domestic Product (GDP)? Explain using a numerical example.

Ans :

FOREIGN 2019

The aggregate market value of the economic output produced in a year within the boundaries of the country is known as Nominal GDP. It is expressed in current year prices and is considered as GDP without the effect of inflation.

Real GDP, on the other hand, refers to the value of economic output produced in a given period adjusted according to the changes in the general price level.

It is inflation adjusted GDP and is expressed in base year prices or constant prices.

Real GDP is always considered as a better indicator of economic growth.

For example, an economy produces only one commodity say rice and it produced 20 kg of rice in year 2018 (base year). Suppose price of rice is ₹20/kg in 2018. So GDP of 2018 is ₹400 (i.e., $20 \text{ kg} \times ₹20$). Thus nominal as well as real GDP of 2018 at current and constant prices is the same in 2018. Now, due to inflation the price of rice goes upto ₹25/kg in 2019 and economy produces same amount of rice, i.e., 20 kg. Now, Nominal GDP has increased from ₹400 to ₹500 in 2019 but since the economy is producing same amount of rice, i.e., 20 kg, it does not reflect growth.

In order to ascertain growth, real GDP of 2019 needs to be estimated. For this value of rice produced in 2019 at base year price, i.e., price of rice in 2018 should be calculated.

Production of rice in 2019 = 20 kg

Price of rice in base year, i.e., 2018 = ₹20/kg
Hence there is no growth.

Now, suppose rice production in 2019 increases to 30 kg, then

$$\text{Nominal GDP} = 25 \times 30 = ₹750$$

$$\text{and Real GDP} = 30 \times 20 = ₹600$$

$$\begin{aligned} \text{Growth Rate} &= \frac{600 - 400}{400} \times 100 \\ &= \frac{200}{400} \times 100 = 50\% \end{aligned}$$

- 241.** Explain the concept of “real income”. Explain why, due to the presence of externalities, real national income in itself cannot be treated as a true index of welfare.

Ans :

(OD 2013)

Real national income, measured at constant prices, reflects the output of goods and services in an economy. While it increases with rising production, it cannot always serve as a true indicator of welfare. This is due to factors like externalities, where the activities of firms or individuals create unintended benefits or harms without compensation.

For example, an oil refinery may increase national income by producing more oil, but it also causes

air and water pollution, negatively affecting the health of nearby residents. Such external costs are not reflected in real income calculations. Thus, real national income overlooks these impacts, limiting its reliability as a welfare measure.

- 242.** Distinguish between ‘nominal income’ and ‘real income’. Explain why due to the presence of non-monetary production, real national income on its own cannot be treated as a true index of welfare.

Ans :

OD 2013

Real income, measured at constant prices, reflects changes due to variations in the volume of goods and services, not prices, making it suitable for comparisons. Conversely, nominal income, measured at current prices, is influenced primarily by price changes and is less reliable for comparative purposes.

However, GDP calculations often exclude activities not evaluated monetarily, such as unpaid domestic work by women or barter exchanges, which involve direct trade of goods or services without money. These exchanges, common in underdeveloped regions of developing countries, remain unregistered, leading to GDP underestimation. Thus, GDP may not fully represent a country’s productive activity or well-being.

- 243.** Distinguish between “real” gross domestic product and “nominal” gross domestic product. Which of these is a better index of welfare of the people and why?

Ans :

OD 2013

Real Gross Domestic Product (GDP) is calculated at constant prices, using a fixed base year, while Nominal GDP is calculated at current prices. Real GDP reflects changes solely in the volume of output, whereas Nominal GDP is influenced by both output and price changes.

GDP is a superior indicator of welfare as it shows the actual growth in goods and services available to people, unaffected by price fluctuations. Nominal GDP, on the other hand, may rise due to inflation without indicating an improvement in living standards. Thus, Real GDP provides a more accurate measure of economic well-being.

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NUMERICAL QUESTIONS

- 244.** From the following data calculate “Net value added at factor cost”.

Particulars	(₹ in crores)
(i) Purchase of intermediate goods	500
(ii) Sales	750
(iii) Import of raw materials	50
(iv) Depreciation	60
(v) Net indirect taxes	100
(vi) Change in stock	(-) 30
(vii) Exports	20

Ans :

OD 2011

Net Value Added at Factor Cost

$$\begin{aligned}
 &= \text{Sales} + \text{Change in stock} - \text{Purchase of intermediate goods} - \text{Depreciation} - \text{Net indirect taxes} \\
 &= 750 + (-30) - 500 - 60 - 100 \\
 &= 750 - 690 = ₹60 \text{ crores}
 \end{aligned}$$

- 245.** From the following data calculate “Net value added at factor cost”:

Particulars	(₹ in crores)
(i) Sales	500
(ii) Purchase of intermediate goods	350
(iii) Opening stock	60
(iv) Indirect taxes	50
(v) Consumption of fixed capital	90
(vi) Imports of raw materials	85
(vii) Closing stock	80

Ans :

COMP 2011

Net Value Added at Factor Cost

$$\begin{aligned}
 &= \text{Sales} + \text{Closing stock} - \text{Opening stock} - \text{Purchase of intermediate goods} - \text{Consumption of fixed capital} - \text{Indirect taxes} \\
 &= 500 + 80 - 60 - 350 - 90 - 50 \\
 &= 580 - 550 = ₹30 \text{ crores}
 \end{aligned}$$

- 246.** Calculate Gross Value Added at Factor Cost:

Particulars	(₹ in crores)
(i) Units of output sold (units)	1,000
(ii) Price per unit of output (₹)	30
(iii) Depreciation (₹)	1,000
(iv) Intermediate cost (₹)	12,000
(v) Closing stock (₹)	3,000
(vi) Opening stock (₹)	2,000
(vii) Excise (₹)	2,500
(viii) Sales tax (₹)	3,500

Ans :

DELHI 2012

Gross Value Added at Factor Cost (GVA_{FC})

$$\begin{aligned}
 &= (\text{Units of output sold} \times \text{Price per unit of output}) + \text{Closing stock} - \text{Opening stock} - \text{Intermediate cost} - \text{Excise duty} - \text{Sales tax} \\
 &= (1,000 \times 30) + 3,000 - 2,000 - 12,000 - 2,500 - 3,500 \\
 &= 33,000 - 20,000 = ₹13,000
 \end{aligned}$$

- 247.** The value of nominal GNP of an economy was ₹2500 crores in a particular year. The value of GNP of that country during the same year, evaluated at the prices of same base year was ₹3000 crores. Calculate the value of the GNP deflator of the year in percentage terms. Has the price level risen between the base year and the year under consideration?

Ans :

SQP 2013

$$\begin{aligned}
 \text{GNP Deflator} &= \frac{\text{Nominal GNP}}{\text{Real GNP}} \times 100 \\
 &= \frac{2,500}{3,000} \times 100 = 83.3\%
 \end{aligned}$$

No, the price level has not risen but fallen from 100% to 83.3%.

- 248.** Find Net Value Added at Market Price:

(i) Depreciation (₹)	700
(ii) Output sold (units)	900
(iii) Price per unit of output (₹)	40
(iv) Closing stock (₹)	1,000
(v) Opening stock (₹)	800
(vi) Sales tax (₹)	3,000
(vii) Intermediate cost (₹)	20,000

Ans :

OD 2012

$$\begin{aligned}
 &\text{Net Value Added at Market Price} \\
 &= (\text{Units of output sold} \times \text{Price per unit of output}) + \text{Closing stock} - \text{Opening stock} - \\
 &\quad \text{Intermediate cost} - \text{Depreciation} \\
 &= (900 \times 40) + 1,000 - 800 - 20,000 - 700 \\
 &= 36,000 + 1,000 - 21,500 = \text{₹}15,500
 \end{aligned}$$

249. Find out Net Value Added at Factor Cost:

(i)	Price per unit of output (₹)	25
(ii)	Output sold (units)	1,000
(iii)	Excise duty (₹)	5,000
(iv)	Depreciation (₹)	1,000
(v)	Change in stocks (₹)	(-) 500
(vi)	Intermediate costs (₹)	7,000

Ans :

COMP 2014

$$\begin{aligned}
 &\text{NVA at Factor Cost} \\
 &= [\text{Price per unit of output} \times \text{Output sold (units)}] + \text{Change in stocks} - \text{Intermediate costs} - \text{Depreciation} - \text{Excise duty} \\
 &= (25 \times 1,000) + (-500) - 7,000 - 1,000 - 5,000 \\
 &= 25,000 - 13,500 = \text{₹}11,500
 \end{aligned}$$

250. Calculate “Net Value added at factor cost” from the following data:

Particulars	(₹ in lakhs)
(i) Intermediate consumption	300
(ii) Change in stock	50
(iii) Net indirect taxes	70
(iv) Sales	500
(v) Consumption of fixed capital	20
(vi) Imports	40

Ans :

FOREIGN 2014

$$\begin{aligned}
 \text{Value of output} &= \text{Sales} + \text{Change in stock} \\
 &= 500 + 50 = \text{₹}550 \text{ lakhs}
 \end{aligned}$$

$$\begin{aligned}
 &\text{GVA at Market Price} \\
 &= \text{Value of output} - \text{Intermediate consumption} \\
 &= 550 - 300 = \text{₹}250 \text{ lakhs}
 \end{aligned}$$

$$\begin{aligned}
 &\text{NVA at Factor Cost} \\
 &= \text{GVA}_{\text{MP}} - \text{Net indirect taxes} - \text{Consumption of fixed capital} \\
 &= 250 - 70 - 20 = \text{₹}160 \text{ lakhs}
 \end{aligned}$$

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251. Find Net Value Added at Factor Cost:

Particulars	(₹ in lakhs)
(i) Durable use producer goods with a life span of 10 years	10
(ii) Single use producer goods	5
(iii) Sales	20
(iv) Unsold output produced during the year	2
(v) Taxes on production	1

Ans :

$$\begin{aligned}
 &\text{Depreciation} \\
 &= \frac{\text{Value of durable use producer goods}}{\text{Life span}} \\
 &= \frac{\text{₹}10 \text{ lakhs}}{10 \text{ years}} = \text{₹}1 \text{ lakh}
 \end{aligned}$$

$$\begin{aligned}
 &\text{Value of Output} \\
 &= \text{Sales} + \text{Unsold output produced during the year} \\
 &= \text{₹}20 + \text{₹}2 = \text{₹}22 \text{ lakhs} \\
 &\text{Gross Value Added at market price (GVA}_{\text{MP}}) \\
 &= \text{Value of Output} - \text{Single use producer goods} \\
 &= 22 - 5 = \text{₹}17 \text{ lakhs} \\
 &\text{Net Value Added at Factor Cost (NVA}_{\text{FC}}) \\
 &= \text{GVA}_{\text{MP}} - \text{Depreciation} - \text{Taxes on production} \\
 &= 17 - 1 - 1 = \text{₹}15 \text{ lakhs}
 \end{aligned}$$

252. Calculate Gross Value Added at Market Price:

S.No.	Particulars	Amt. (in ₹ lakhs)
(i)	Depreciation	20
(ii)	Domestic Sales	200
(iii)	Change in Stocks	(-)10
(iv)	Exports	10
(v)	Single use producer goods	120

Ans :

FOREIGN 2020

$$\begin{aligned}
 &\text{Value of Output} \\
 &= \text{Domestic Sales} + \text{Exports} + \text{Change in Stocks} \\
 &= 200 + 10 + (-10) = 200 \\
 &\text{GVA at MP} \\
 &= \text{Value of Output} - \text{Single use producer goods} \\
 &= 200 - 120 = \text{₹}80 \text{ lakhs}
 \end{aligned}$$

253. Calculate “Sales” from the following data:

Particulars	(₹ in lakhs)
(i) Net value added at factor cost	560
(ii) Depreciation	60
(iii) Change in stock	(-) 30
(iv) Intermediate cost	1,000
(v) Exports	200
(vi) Indirect taxes	60

Ans :

DELHI 2013

Sales

$$\begin{aligned}
 &= \text{Net value added at factor cost} + \text{Depreciation} \\
 &\quad + \text{Indirect taxes} + \text{Change in stock} + \text{Intermediate cost} \\
 &= 560 + 60 + 60 - (-30) + 1,000 \\
 &= ₹1,710 \text{ lakhs}
 \end{aligned}$$

254. From the following data, calculate Net Value Added at Factor Cost.

Particulars	(₹ in crores)
(i) Sales	300
(ii) Opening stock	40
(iii) Depreciation	30
(iv) Intermediate consumption	120
(v) Exports	50
(vi) Change in stock	20
(vii) Net indirect taxes	15
(viii) Factor income to abroad	10

Ans :

OD 2015

$$\begin{aligned}
 \text{Value of output} &= \text{Sales} + \text{Change in stock} \\
 &= 300 + 20 = ₹320 \text{ crores}
 \end{aligned}$$

Gross Value of Product (GVA_{MP})

$$\begin{aligned}
 &= \text{Value of output} - \text{Intermediate consumption} \\
 &= 320 - 120 = ₹200 \text{ crores}
 \end{aligned}$$

Net Value Added at factor cost (NVA_{FC})

$$\begin{aligned}
 &= GVA_{MP} - \text{Depreciation} - \text{Net Indirect Taxes} \\
 &= 200 - 30 - 15 = ₹155 \text{ crores}
 \end{aligned}$$

255. From the following data, calculate “Net value added at factor cost”.

Particulars	(₹ in lakhs)
(i) Sales	400
(ii) Change in stock	(-) 20

(iii) Intermediate consumption	200
(iv) Net indirect taxes	40
(v) Exports	50
(vi) Depreciation	30

Ans :

SQP 2014

$$\begin{aligned}
 \text{Value of output} &= \text{Sales} + \text{Change in stock} \\
 &= 400 - 20 = ₹380 \text{ lakhs}
 \end{aligned}$$

GVA_{MP}

$$\begin{aligned}
 &= \text{Value of output} - \text{Intermediate consumption} \\
 &= 380 - 200 = ₹180 \text{ lakhs}
 \end{aligned}$$

NVA_{FC}

$$\begin{aligned}
 &= GVA_{MP} - \text{Depreciation} - \text{Net indirect taxes} \\
 &= 180 - 30 - 40 = ₹110 \text{ lakhs}
 \end{aligned}$$

256. Calculate Net Value Added at Market Price.

Particulars	(₹ in crores)
(i) Intermediate consumption	1,000
(ii) Consumption of fixed capital	50
(iii) Net Indirect taxes	150
(iv) Sales	2,000
(v) Exports	200
(vi) Net factor income to abroad	(-) 100
(vii) Change in stock	(-) 50

Ans :

OD 2015

GVA_{MP}

$$\begin{aligned}
 &= \text{Sales} + \text{Change in stock} - \text{Intermediate consumption} \\
 &= 2,000 + (-50) - 1,000 = ₹950 \text{ crores}
 \end{aligned}$$

NVA_{MP}

$$\begin{aligned}
 &= GVA_{MP} - \text{Consumption of fixed capital} \\
 &= 950 - 50 = ₹900 \text{ crores}
 \end{aligned}$$

257. Calculate Net Value Added at Factor Cost (NVA_{FC}) from the following data:

Particulars	(in ₹ lakh)
(i) Fixed capital goods (expected life span - 5 years)	15
(ii) Domestic Sales	200
(iii) Change in stock	(-) 10
(iv) Exports	10
(v) Single use producer goods	120
(vi) Net indirect taxes	20

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Ans :

OD 2024

Depreciation on Fixed capital goods

$$= \frac{\text{Fixed capital goods}}{\text{Expected life span}} = \frac{15}{5} = 3$$

Net Value Added at Factor Cost (NVA_{FC})

$$\begin{aligned}
 &= \text{Domestic sales} + \text{Exports} + \text{Change in stock} \\
 &\quad - \text{Single use producer goods} - \text{Depreciation} - \text{Net indirect taxes} \\
 &= (\text{ii}) + (\text{iv}) + (\text{iii}) - (\text{v}) - 3 - (\text{vi}) \dots [\text{From (i)}] \\
 &= ₹200 + ₹10 + (-10) - ₹120 - ₹3 - ₹20 \\
 &= ₹57 \text{ lakh}
 \end{aligned}$$

- 258.** Calculate Net Value Added at Factor Cost (NVA_{FC}) from the following data:

S.No.	Particulars	Amount (in ₹ crores)
(i)	Value of output	800
(ii)	Intermediate consumption	200
(iii)	Indirect taxes	30
(iv)	Depreciation	20
(v)	Subsidies	50
(vi)	Purchase of machinery	50

Ans :

DELHI 2020

$$\begin{aligned}
 GVA_{MP} &= \text{Value of Output} \\
 &\quad - \text{Intermediate Consumption} \\
 &= 800 - 200 = ₹600 \text{ crores} \\
 NVA_{FC} &= GVA_{MP} - \text{Depreciation} \\
 &\quad - (\text{Indirect taxes} - \text{Subsidies}) \\
 &= 600 - 20 - (30 - 50) = ₹600 \text{ crores}
 \end{aligned}$$

- 259.** Calculate Net Value Added at factor cost from the following data:

S.No.	Particulars	Amt. (₹ in lakhs)
(i)	Durable producer goods (with a life span of 10 years)	10
(ii)	Single use producer goods	5
(iii)	Sales	20
(iv)	Unsold Goods (Stock)	2
(v)	Goods & Services Tax (GST)	1

Ans :

DELHI 2023

$$\text{Value of output} = \text{Sales} + \text{Unsold goods}$$

$$= 20 + 2 = ₹22 \text{ lakh}$$

$$\text{Depreciation} = \frac{\text{Durable producer goods}}{\text{Life span}}$$

$$= \frac{10}{10} = ₹1 \text{ lakh}$$

GVA at MP

$$\begin{aligned}
 &= \text{Value of Output} - \text{single use producer goods} \\
 &= 22 - 5 = ₹17 \text{ lakh}
 \end{aligned}$$

$$\begin{aligned}
 NVA \text{ at FC} &= GVA_{MP} - \text{Depreciation} - \text{GST} \\
 &= 17 - 1 - 1 = ₹15 \text{ lakh}
 \end{aligned}$$

- 260.** Calculate Net Domestic Product at Factor Cost by Production Method.

	Particulars	(₹ in crores)
(i)	Net value added at market price by primary sector	1,000
(ii)	Wages and salaries	2,000
(iii)	Social security contributions by employers	100
(iv)	Net value added at market price by the secondary sector	600
(v)	Corporation tax	30
(vi)	Retained earnings of private corporation	10
(vii)	Net value added at market price by the tertiary sector	1,400
(viii)	Dividend	60
(ix)	Rent	300
(x)	Interest	300
(xi)	Net indirect tax	200
(xii)	Social security contribution by employees	80

Ans :

OD 2011

NDP_{FC} by Production Method

$$\begin{aligned}
 &= \text{Net value added at market price by primary sector} + \text{Net value added at market price by the secondary sector} + \text{Net value added at market price by the tertiary sector} - \text{Net indirect tax} \\
 &= 1,000 + 600 + 1,400 - 200 = ₹ 2, 800 \text{ crores}
 \end{aligned}$$

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- 261.** From the following data, calculate Net Value Added at Factor Cost (NVA_{FC}):

S.No.	Particulars	Amount in (₹ crores)
(i)	Price per unit of output	20
(ii)	Output sold (units)	1,250 units
(iii)	Excise duty	5,000
(iv)	Consumption of fixed capital	1,000
(iii)	Change in stock	(-) 500
(v)	Single use producer good	6,000

Ans :

COMP 2023

NVA_{FC}

$$\begin{aligned}
 &= \text{Price per unit of output} \times \text{Output sold (units)} \\
 &\quad + \text{Change in stock} - \text{Single use producer goods} \\
 &\quad - \text{Consumption of fixed capital} - \text{Excise duty} \\
 &= (20 \times 1,250) + (-500) - 6,000 - 1,000 - 5,000 \\
 &= 25,000 - 500 - 6,000 - 1,000 - 5,000 \\
 &= ₹12,500 \text{ crores}
 \end{aligned}$$

- 262.** Calculate 'Net Domestic Product at Factor Cost' by the Production method.

	Particulars	(₹ in crores)
(i)	Value of output in the economic territory	4,100
(ii)	Net imports	(-) 50
(iii)	Intermediate purchases by the primary sector	600
(iv)	Private final consumption expenditure	1,450
(v)	Intermediate purchases by the secondary sector	700
(vi)	Government final consumption expenditure	400
(vii)	Net domestic fixed capital formation	200
(viii)	Intermediate purchases by the tertiary sector	700
(ix)	Net change in stocks	(-) 50
(x)	Indirect taxes	100
(xi)	Consumption of fixed capital	50

Ans :

SQP 2010

NDP_{FC} (Production Method)

= Value of output in the economic territory –
Intermediate purchases by the primary sector
– Intermediate purchases by the secondary sector – Intermediate purchases by the tertiary sector – Consumption of fixed capital – Indirect taxes

$$\begin{aligned}
 &= (i) - (iii) - (v) - (viii) - (xi) - (x) \\
 &= 4,100 - 600 - 700 - 700 - 50 - 100 \\
 &= 4,100 - 2,150 = ₹1,950 \text{ crores}
 \end{aligned}$$

- 263.** On the basis of the data given below for an imaginary economy, estimate the value of Net Domestic Product at factor cost (NDP_{FC}):

S.No.	Particulars	Amt. in (₹ crores)
(i)	Household Consumption Expenditure	2,000
(ii)	Government Final Consumption Expenditure	1,500
(iii)	Gross Domestic Fixed Capital Formation	1,000
(iv)	Net Additions to stock	300
(v)	Exports	700
(vi)	Net Indirect Taxes	350
(vii)	Imports	200
(viii)	Consumption of Fixed Capital	250

Ans :

COMP 2023

NDP_{FC}

$$\begin{aligned}
 &= (i) + (ii) + (iii) + (iv) + (v) - (vi) - (vii) - (viii) \\
 &= 2,000 + 1,500 + 1,000 + 300 + 700 - 350 - 200 - 250 \\
 &= 5,500 - 800 = ₹4,700 \text{ crores}
 \end{aligned}$$

- 264.** On the basis of the data given below for an imaginary economy, estimate the value of Net Domestic Product at Factor Cost (NDP_{FC}):

S.No.	Particulars	Amt. in (₹ crores)
(i)	Household Consumption Expenditure	3,000
(ii)	Government Final Consumption Expenditure	1,000
(iii)	Net Domestic Fixed Capital Formation	1,000

(iv)	Change in stock	200
(v)	Exports	500
(vi)	Indirect Taxes	350
(vii)	Imports	300
(viii)	Subsidies	50

Ans :

FOREIGN 2023

$$\begin{aligned}
 \text{NDP}_{\text{FC}} &= (\text{i}) + (\text{ii}) + (\text{iii}) + (\text{iv}) + (\text{v}) - (\text{vi}) - (\text{vii}) + (\text{viii}) \\
 &= 3,000 + 1,000 + 1,000 + 200 + 500 - 350 - 300 + 50 = \text{₹}5,100 \text{ crores}
 \end{aligned}$$

- 265.** On the basis of the data given below for an imaginary economy, estimate the value of Gross National Product at Market price (GNP_{MP}):

S.No.	Particulars	Amt. in (₹ crores)
(i)	Household Consumption Expenditure	2,000
(ii)	Government Final Consumption Expenditure	1,000
(iii)	Gross Fixed Capital Formation	1,100
(iv)	Net Addition to Stock	200
(v)	Exports	600
(vi)	Net factor income from abroad	150
(vii)	Imports	400

Ans :

DELHI 2023

$$\begin{aligned}
 \text{GNP}_{\text{MP}} &= (\text{i}) + (\text{ii}) + (\text{iii}) + (\text{iv}) + (\text{v}) + (\text{vi}) - (\text{vii}) \\
 &= 2,000 + 1,000 + 1,100 + 200 + 600 + 150 - 400 = \text{₹}4,650 \text{ crores}
 \end{aligned}$$

- 266.** Find Gross National Product at Market Price:

	Particulars	(₹ in crores)
(i)	Private final consumption expenditure	800
(ii)	Net current transfers to abroad	20
(iii)	Net factor income to abroad	(-) 10
(iv)	Government final consumption expenditure	300

(v)	Net indirect tax	150
(vi)	Net domestic capital formation	200
(vii)	Current transfers from government	40
(viii)	Depreciation	100
(ix)	Net imports	30
(x)	Income accruing to government	90
(xi)	National debt interest	50

Ans :

OD 2016

$$\begin{aligned}
 \text{NDP}_{\text{MP}} &= \text{Private final consumption expenditure} + \text{Government final consumption expenditure} + \text{Net domestic capital formation} - \text{Net imports} \\
 &= 800 + 300 + 200 - 30 = \text{₹}1,270 \text{ crores} \\
 \text{GNP}_{\text{MP}} &= \text{NDP}_{\text{MP}} + \text{Depreciation} - \text{Net factor income to abroad} \\
 &= 1,270 + 100 - (-10) = \text{₹}1,380 \text{ crores}
 \end{aligned}$$

- 267.** Estimate the value of Net National Product at Factor Cost (NNP_{FC}), using the following information:

	Items	(₹ in crores)
(i)	Household Consumption Expenditure	1,200
(ii)	Business Fixed investment Expenditure	800
(iii)	Government Final Consumption Expenditure	500
(iv)	Excess of Imports over Exports	100
(v)	Net indirect tax	150
(vi)	Change in Inventory	(-) 50
(vii)	Consumption of fixed capital	200
(viii)	Net factor income from Abroad	80
(ix)	Public fixed investment	70

Ans :

OD 2024

$$\begin{aligned}
 \text{NNP}_{\text{FC}} &= (\text{i}) + (\text{ii}) + (\text{iii}) - (\text{iv}) - (\text{v}) + (\text{vi}) - (\text{vii}) + (\text{viii}) + (\text{ix})
 \end{aligned}$$

$$= 1200 + 800 + 500 - 100 - 150 + (-50) - 200 + 80 + 70 = ₹2,150 \text{ crores}$$

- 268.** Estimate the value of Net Domestic Product at Factor Cost (NDP_{FC}), using the following information:

	Items	(₹ in crores)
(i)	Household Consumption Expenditure	1,200
(ii)	Business Fixed investment Expenditure	800
(iii)	Government Final Consumption Expenditure	500
(iv)	Excess of Imports over Exports	100
(v)	Net indirect tax	150
(vi)	Change in Inventory	(-) 50
(vii)	Consumption of fixed capital	200
(viii)	Net factor income from Abroad	80
(ix)	Public fixed investment	70

Ans :

COMP 2024

NDP_{FC}

$$= (i) + (ii) + (iii) - (iv) - (v) + (vi) - (vii) + (ix) \\ = 1200 + 800 + 500 - 100 - 150 + (-50) - 200 + 70 = ₹2,070 \text{ crore}$$

- 269.** Estimate the value of Gross Domestic Product at Market Price (GDP_{MP}), using the following information:

	Items	(₹ in crores)
(i)	Household Consumption Expenditure	1,200
(ii)	Business Fixed investment Expenditure	800
(iii)	Government Final Consumption Expenditure	500
(iv)	Excess of Imports over Exports	100
(v)	Net indirect tax	150
(vi)	Change in Inventory	(-) 50
(vii)	Consumption of fixed capital	200

(viii)	Net factor income from Abroad	80
(ix)	Public fixed investment	70

Ans :

SQP 2024

$$GDP_{MP} = (i) + (ii) + (iii) - (iv) - (v) + (ix) \\ = 1200 + 800 + 500 - 100 + (-50) + 70 \\ = ₹2,420 \text{ Crore}$$

- 270.** Calculate Net Domestic Product at factor cost from the following data:

	Particulars	(₹ in crores)
(i)	Government final consumption expenditure	2,000
(ii)	Net factor income to abroad	(-) 40
(iii)	Gross domestic capital formation	800
(iv)	Change in stock	(-) 30
(v)	Net domestic capital formation	620
(vi)	Net indirect taxes	250
(vii)	Net Current transfers from rest of the world	800
(viii)	Net exports	(-) 500
(ix)	Profits	700
(x)	Private final consumption expenditure	5,000

Ans :

OD 2011

NDP_{FC}

$$= \text{Private final consumption expenditure} + \text{Government final consumption expenditure} + \text{Net domestic capital formation} + \text{Net exports} - \text{Net indirect taxes} \\ = 5,000 + 2,000 + 620 + (-500) - 250 \\ = 7,620 - 750 = ₹6,870 \text{ crores}$$

- 271.** Calculate Net domestic product at factor cost data:

	Particulars	(₹ in crores)
(i)	Net indirect tax	130
(ii)	Government final consumption expenditure	100
(iii)	Profits	90

(iv)	Net domestic capital formation	120
(v)	Change in stocks	(-) 10
(vi)	Private final consumption expenditure	500
(vii)	Net imports	20
(viii)	Net current transfers to abroad	10
(ix)	Net factor income to abroad	30
(x)	Gross domestic capital formation	160

Ans :

FOREIGN 2023

NDP_{FC}

$$\begin{aligned}
 &= \text{Private final consumption expenditure} + \\
 &\quad \text{Government final consumption expenditure} + \\
 &\quad \text{Net domestic capital formation} - \text{Net imports} \\
 &\quad - \text{Net indirect tax} \\
 &= 500 + 100 + 120 - 20 - 130 = \text{₹}570 \text{ crores}
 \end{aligned}$$

- 272.** Calculate Gross National Product at Market Price from the following data:

	Particulars	(₹ in crores)
(i)	Private final consumption expenditure	3,000
(ii)	Factor income to abroad	100
(iii)	Government final consumption expenditure	800
(iv)	Net export	(-) 200
(v)	Net current transfers from rest of the world	300
(vi)	Gross domestic fixed capital formation	600
(vii)	Change in stock	(-) 20
(viii)	Net indirect taxes	400
(ix)	Factor income from abroad	50
(x)	Net domestic capital formation	500

Ans :

DELHI 2011

NDP_{MP}

$$\begin{aligned}
 &= \text{Private final consumption expenditure} + \\
 &\quad \text{Government final consumption expenditure} + \\
 &\quad \text{Net domestic capital formation} + \text{Net exports} \\
 &= 3,000 + 800 + 500 + (-200) = \text{₹}4,100 \text{ crores}
 \end{aligned}$$

GNP_{MP}

$$\begin{aligned}
 &= \text{NDP}_{\text{MP}} + \text{Gross domestic fixed capital formation} + \text{Change in stock} - \text{Net domestic capital formation} + \text{Factor income from abroad} \\
 &\quad - \text{Factor income to abroad} \\
 &= 4,100 + 600 + (-20) - 500 + 50 - 100 \\
 &= 4,750 - 620 = \text{₹}4,130 \text{ crores}
 \end{aligned}$$

- 273.** Find out Gross National Product at Market Price:

	Particulars	(₹ in crores)
(i)	Net indirect tax	35
(ii)	Private final consumption expenditure	500
(iii)	Net national disposable income	750
(iv)	Closing stock	10
(v)	Government final consumption expenditure	150
(vi)	Net domestic fixed capital formation	100
(vii)	Net factor income to abroad	(-) 15
(viii)	Net imports	20
(ix)	Opening stock	10
(x)	Consumption of fixed capital	50

Ans :

SQP 2011

GNP_{MP}

$$\begin{aligned}
 &= \text{Private final consumption expenditure} + \\
 &\quad \text{Government final consumption expenditure} + \\
 &\quad (\text{Net domestic capital formation} + \text{Closing stock} - \text{Opening stock} + \text{Consumption of fixed capital}) - \text{Net imports} - \text{Net factor income to abroad} \\
 &= 500 + 150 + (100 + 10 - 10 + 50) - 20 - (-15) \\
 &= 650 + 150 - 20 + 15 \\
 &= 815 - 20 = \text{₹}795 \text{ crores}
 \end{aligned}$$

- 274.** Find out National Income:

	Particulars	(₹ in crores)
(i)	Net imports	(-) 10
(ii)	Net domestic fixed capital formation	100

(iii)	Private final consumption expenditure	600
(iv)	Consumption of fixed capital	60
(v)	Change in stocks	(-) 50
(vi)	Government final consumption expenditure	200
(vii)	Net factor income to abroad	20
(viii)	Net current transfers to abroad	30
(ix)	Net indirect tax	70
(x)	Factor income from abroad	10

Ans :

OD 2012

National Income (NNP_{FC})

$$\begin{aligned}
 &= \text{Private final consumption expenditure} + \text{Government final consumption expenditure} \\
 &\quad + [\text{Net domestic fixed capital formation} + \text{Change in stocks}] - \text{Net imports} - \text{Net factor income to abroad} - \text{Net indirect tax} \\
 &= 600 + 200 + [100 + (-50)] - (-10) - 20 - 70 \\
 &= 800 + 100 - 50 + 10 - 90 \\
 &= 910 - 140 = ₹770 \text{ crores}
 \end{aligned}$$

275. Calculate National Income from the following data:

		(₹ in crores)
(i)	Private final consumption expenditure	900
(ii)	Profit	100
(iii)	Government final consumption expenditure	400
(iv)	Net indirect taxes	100
(v)	Gross domestic capital formation	250
(vi)	Change in stock	50
(vii)	Net factor income from abroad	(-) 40
(viii)	Consumption of fixed capital	20
(ix)	Net imports	30

Ans :

DELHI 2013

National Income (NNP_{FC})

$$\begin{aligned}
 &= \text{Private final consumption expenditure} + \text{Government final consumption expenditure} \\
 &\quad + \text{Gross domestic capital formation} - \text{Net imports} - \text{Consumption of fixed capital} + \text{Net factor income from abroad} - \text{Net indirect taxes} \\
 &= 900 + 400 + 250 - 30 - 20 + (-40) - 100 \\
 &= ₹1,360 \text{ crores}
 \end{aligned}$$

276. Calculate National Income:

		(₹ in crores)
(i)	Personal tax	80
(ii)	Private final consumption expenditure	600
(iii)	Undistributed profits	30
(iv)	Private income	650
(v)	Government final consumption expenditure	100
(vi)	Corporate tax	50
(vii)	Net domestic fixed capital formation	70
(viii)	Net indirect tax	60
(ix)	Depreciation	14
(x)	Change in stocks	(-) 10
(xi)	Net imports	20
(xii)	Net factor income to abroad	10

Ans :

DELHI 2015

National Income

$$\begin{aligned}
 &= \text{Private final consumption expenditure} + \text{Government final consumption expenditure} + \text{Net domestic fixed capital formation} + \text{Change in stocks} - \text{Net imports} - \text{Net factor income to abroad} - \text{Net indirect tax} \\
 &= 600 + 100 + 70 + (-10) - 20 - 10 - 60 \\
 &= ₹670 \text{ crores}
 \end{aligned}$$

277. Calculate 'Net National Product at Market Price':

		(₹ in crores)
(i)	Transfer payments by government	7
(ii)	Government final consumption expenditure	50
(iii)	Net imports	(-) 10

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(iv)	Net domestic fixed capital formation	60
(v)	Private final consumption expenditure	300
(vi)	Private income	280
(vii)	Net factor income to abroad	(-) 5
(viii)	Closing stock	8
(ix)	Opening stock	8
(x)	Depreciation	12
(xi)	Corporate tax	60
(xii)	Retained earnings of corporations	20

Ans :

OD 2015

NNP_{MP}

$$\begin{aligned}
 &= \text{Private final consumption expenditure} + \text{Government final consumption expenditure} + \text{Net domestic fixed capital formation} + \text{Closing stock} - \text{Opening stock} - \text{Net imports} - \text{Net factor income to abroad} \\
 &= 300 + 50 + 60 + 8 - 8 - (-10) - (-5) \\
 &= ₹425 \text{ crores}
 \end{aligned}$$

278. Calculate National Income.

		(₹ in crores)
(i)	Private final consumption expenditure	500
(ii)	Net domestic fixed capital formation	100
(iii)	Net factor income from abroad	30
(iv)	Change in stock	20
(v)	Net exports	40
(vi)	Net indirect taxes	50
(vii)	Mixed income	300
(viii)	Government final consumption expenditure	200
(ix)	Consumption of fixed capital	60
(x)	Net current transfer to abroad	(-) 10

Ans :

OD 2015

NDP_{MP}

$$\begin{aligned}
 &= \text{Private final consumption expenditure} + \text{Net domestic capital formation} + \text{Change in stock} + \text{Net exports} + \text{Government final consumption expenditure} \\
 &= 500 + 100 + 20 + 40 + 200 = ₹860 \text{ crores} \\
 \text{National Income (} NNP_{FC} \text{)} \\
 &= NDP_{MP} + \text{Net factor income from abroad} - \text{Net indirect taxes} \\
 &= 860 + 30 - 50 = ₹840 \text{ crores}
 \end{aligned}$$

279. Calculate National Income.

		(₹ in crores)
(i)	Gross domestic fixed capital formation	200
(ii)	Change in stock	(-) 30
(iii)	Net factor income to abroad	50
(iv)	Private final consumption expenditure	1500
(v)	Net indirect taxes	100
(vi)	Net exports	60
(vii)	Profit	500
(viii)	Government final consumption expenditure	600
(ix)	Consumption of fixed capital	20
(x)	Net current transfer to abroad	(-) 10

Ans :

OD 2015

DDP_{MP}

$$\begin{aligned}
 &= \text{Private final consumption expenditure} + \text{Government final consumption expenditure} + \text{Gross domestic fixed capital formation} + \text{Change in stock} + \text{Net Exports} \\
 &= 1,500 + 600 + 200 - 30 + 60 = ₹2,330 \text{ crores} \\
 \text{National Income (} NNP_{FC} \text{)} \\
 &= NDP_{MP} + \text{Net factor income from abroad} - \text{Net indirect taxes} \\
 &= 860 + 30 - 50 = ₹840 \text{ crores} \\
 \text{National Income (} NNP_{FC} \text{)} \\
 &= GDP_{MP} - \text{Consumption of fixed capital} - \text{Net indirect taxes} - \text{Net factor income to abroad} \\
 &= 2,330 - 20 - 100 - 50 = ₹2,160 \text{ crores}
 \end{aligned}$$

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280. Calculate national income:

		(₹ in crores)
(i)	Net factor income to abroad	(-) 50
(ii)	Net indirect taxes	800
(iii)	Net current transfers from rest of the world	100
(iv)	Net imports	200
(v)	Private final consumption expenditure	5,000
(vi)	Government final consumption expenditure	3,000
(vii)	Gross domestic capital formation	1,000
(viii)	Consumption of fixed capital	150
(ix)	Change in stock	(-) 50
(x)	Mixed income	4,000
(xi)	Scholarship to students	80

Ans :

DELHI 2020

GDP_{MP}

$$\begin{aligned}
 &= \text{Private final consumption expenditure} + \text{Government final consumption expenditure} + \text{Gross domestic capital formation} + \text{Change in stock} - \text{Net imports} \\
 &= 5,000 + 3,000 + 1,000 + (-50) - 200 \\
 &= ₹8,750 \text{ crores} \\
 &NNP_{FC} \text{ (National Income)} \\
 &= GDP_{MP} - \text{Consumption of Fixed Capital} - \text{Net Factor Income to Abroad} - \text{Net indirect taxes} \\
 &= 8,750 - 150 - (-50) - 800 = ₹7,850 \text{ crores}
 \end{aligned}$$

281. Calculate net national product at market price:

		(₹ in crores)
(i)	Gross domestic fixed capital formation	400
(ii)	Private final consumption expenditure	8,000
(iii)	Government final consumption expenditure	3,000
(iv)	Change in stock	50
(v)	Consumption of fixed capital	40

(vi)	Net indirect taxes	100
(vii)	Net exports	(-) 60
(viii)	Net factor income to abroad	(-) 80
(ix)	Net current transfer from abroad	100
(x)	Dividend	100

Ans :

OD 2017

GDP_{MP}

$$\begin{aligned}
 &= \text{Private final consumption expenditure} + \text{Government final consumption expenditure} + \text{Gross domestic fixed capital formation} + \text{Change in Stock} + \text{Net Exports} \\
 &= 8,000 + 3,000 + 400 + 50 + (-60) \\
 &= ₹11,390 \text{ crore}
 \end{aligned}$$

NNP_{MP}

$$\begin{aligned}
 &= GDP_{MP} - \text{Consumption of fixed capital} - \text{Net factor income to abroad} \\
 &= 11,390 - 40 - (-80) = ₹11,430 \text{ crore}
 \end{aligned}$$

282. Calculate (i) Gross Domestic product at market price and (ii) National Income:

		(₹ in crores)
(i)	Government final consumption	4,000
(ii)	Private final consumption expenditure	3,500
(iii)	Gross domestic capital formation	1,100
(iv)	Net exports	500
(v)	Net factor income from abroad	100
(vi)	Net indirect taxes	300
(vii)	Subsidies	40
(viii)	Change in stock	80
(ix)	Consumption of fixed capital	120

Ans :

OD 2018

GDP_{MP}

$$\begin{aligned}
 &= \text{Government final consumption expenditure} + \text{Private final consumption expenditure} + \text{Gross domestic capital formation} + \text{Net exports} \\
 &= 4,000 + 3,500 + 1,100 + 500 = ₹9,100 \text{ crores}
 \end{aligned}$$

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National Income (NNP_{FC})

$$= GDP_{MP} + \text{Net factor income from abroad} - \text{Net indirect taxes} - \text{Consumption of fixed capital}$$

$$= 9,100 + 100 - 300 - 120 = ₹8,780 \text{ crores}$$

283. Calculate 'Net Domestic Product at Factor Cost' :

		(₹ in crores)
(i)	Net factor income to abroad	30
(ii)	Sales	2,000
(iii)	Subsidies	20
(iv)	Consumption of fixed capital	50
(v)	Net current transfer to abroad	(-) 10
(vi)	Closing stocks	100
(vii)	Opening stocks	200
(viii)	Intermediate costs	1,000
(ix)	Indirect tax	150

Ans :

FOREIGN 2011

NDP_{FC}

$$= \text{Sales} + \text{Closing stocks} - \text{Opening stocks} - \text{Intermediate costs} - \text{Indirect tax} + \text{Subsidies} - \text{Consumption of fixed capital}$$

$$= (ii) + (vi) - (vii) - (viii) - (ix) + (iii) - (iv)$$

$$= 2,000 + 100 - 200 - 1,000 - 150 + 20 - 50$$

$$= 2,120 - 1,400 = ₹720 \text{ crores}$$

284. Suppose in a financial year, the Gross Domestic Product (GDP) at market price of a country was ₹1,100 crore. Net factor income from Abroad was ₹100 crore, the net indirect taxes was ₹150 crore and National income was ₹850 crore. Calculate the value of depreciation, on the basis of above information.

Ans :

COMP 2011

NNP_{FC}

$$= GDP_{MP} - \text{Net Indirect Taxes} - \text{Depreciation} + \text{Net Factor Income from abroad}$$

$$850 = 1100 - 150 - \text{Depreciation} + 100$$

$$\text{Depreciation} = 1100 + 100 - 150 - 850$$

$$= ₹200 \text{ crore}$$

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285. Calculate the value of Domestic Income from the following data:

S.No	Particulars	Amt. in (₹ crores)
(i)	Rent and Royalties	1,300
(ii)	Net Indirect Taxes	200
(iii)	Wages & Salaries (in cash & in kind)	1,700
(iv)	Corporate Tax	400
(v)	Depreciation	400
(vi)	Retained Earnings	300
(vii)	Dividends	400
(viii)	Net factor income from Abroad	(-) 120
(ix)	Mixed Income of Self Employed	1,400
(x)	Change in Stock	(-) 200

Ans :

SQP 2023

Domestic Income (NDP_{FC})

$$= (i) + (iii) + (iv) + (vi) + (vii) + (ix)$$

$$= 1300 + 1700 + 400 + 300 + 400 + 1400$$

$$= ₹5,500 \text{ crore}$$

286. Calculate Net Domestic Product at factor cost.

S.No	Particulars	Amt. in (₹ crores)
(i)	Interest	700
(ii)	Compensation of employees	3,000
(iii)	Net Indirect Taxes	500
(iv)	Rent and Profit	700
(v)	Transfer Payments by Governments	10

Ans :

DELHI 2023

NDP_{FC}

$$= \text{Interest} + \text{Compensation of Employees} + \text{Rent and Profit}$$

$$= 700 + 3000 + 700 = ₹4,400 \text{ crores}$$

287. Calculate the value of "Rent" from the following data:

		(₹ in crores)
(i)	Gross Domestic Product at Market Price	18,000

(ii)	Mixed Income of Self-Employed	7,000
(iii)	Subsidies	250
(iv)	Interest	800
(v)	Rent	?
(vi)	Profit	975
(vii)	Compensation of Employees	6,000
(viii)	Consumption of Fixed Capital	1,000
(ix)	Indirect Tax	2,000

Ans :

COMP 2019

Given: GDP_{MP} = ₹18,000 crores

$$\begin{aligned}
 \text{NDP}_{\text{FC}} &= \text{GDP}_{\text{MP}} - \text{Indirect Tax} + \text{Subsidies} \\
 &\quad - \text{Consumption of fixed capital} \\
 &= 18,000 - 2,000 + 250 - 1,000 \\
 &= 16,000 - 750 = ₹15,250 \text{ crores}
 \end{aligned}$$

Now,

$$\begin{aligned}
 \text{NDP}_{\text{FC}} &= \text{Compensation of Employees} \\
 &\quad + \text{Interest} + \text{Rent} + \text{Profit} \\
 &\quad + \text{Mixed income of self employed} \\
 15,000 &= 6,000 + 800 + \text{Rent} + 975 + 7,000 \\
 \text{Rent} &= ₹15,250 - ₹14,775 \\
 \text{Rent} &= ₹475 \text{ crores}
 \end{aligned}$$

288. Calculate the value of “Mixed Income of self-employed” from the following data:

		(₹ in crores)
(i)	Compensation of employees	17,300
(ii)	Interest	1,200
(iii)	Consumption of Fixed Capital	1,100
(iv)	Mixed Income of Self-Employed	?
(v)	Subsidies	750
(vi)	Gross Domestic Product at Market Price	27,500
(vii)	Indirect Tax	2,100
(viii)	Profits	1,800
(ix)	Rent	2,000

Ans :

OD 2019

Given:

$$\text{GDP}_{\text{MP}} = ₹27,500 \text{ crores}$$

$$\text{NDP}_{\text{FC}} = \text{GDP}_{\text{MP}} - \text{Indirect taxes} + \text{Subsidies} - \text{Consumption of fixed Capital}$$

$$\begin{aligned}
 \text{NDP}_{\text{FC}} &= 27,500 - 2,100 + 750 - 1,100 \\
 &= ₹25,050
 \end{aligned}$$

$$\begin{aligned}
 \text{NDP}_{\text{FC}} &= \text{Compensation of Employees} \\
 &\quad + \text{Interest} + \text{Profits} + \text{Rent} \\
 &\quad + \text{Mixed income of self employed} \\
 25,050 &= 17,300 + 1,200 + 1,800 + 2,000 \\
 &\quad + \text{mixed income of self employed}
 \end{aligned}$$

Mixed income of self-employed

$$\begin{aligned}
 &= 25,050 - 17,300 - 1,200 - 1,800 - 2,000 \\
 &= ₹2,750 \text{ crores}
 \end{aligned}$$

289. From the following data, calculate:

- Gross Domestic Product at Factor Cost
- Factor Income to Abroad

		(₹ in '000 crores)
(i)	Compensation of employees	800
(ii)	Profits	200
(iii)	Dividends	50
(iv)	Gross national product at MP	1,400
(v)	Rent	150
(vi)	Interest	100
(vii)	Gross domestic capital formation	300
(viii)	Net fixed capital formation	200
(ix)	Change in Stock	50
(x)	Factor income from abroad	60
(xi)	Net indirect taxes	120

Ans :

DELHI 2010

- Gross Domestic Product at Factor Cost

$$\begin{aligned}
 \text{GDP}_{\text{FC}} &= \text{Compensation of employees} + \text{Rent} \\
 &\quad + \text{Interest} + \text{Profits} \\
 &\quad + \text{Gross domestic capital formation} \\
 &\quad - \text{Net fixed capital formation} \\
 &\quad - \text{Change in Stock} \\
 &= 800 + 200 + 150 + 100 + 300 - 200 - 50 \\
 &= 1,600 - 250 = ₹1,300 \text{ (in '000 crore)}
 \end{aligned}$$

(ii) $GDP_{FC} = GNP_{MP}$
 $- \text{Net factor income from abroad}$
 $- \text{Net indirect taxes}$
 $1300 = 1400 - (\text{Factor income from abroad}$
 $- \text{Factor income to abroad}) - 120$
 $1300 = 1400 - (60 - \text{Factor income to abroad})$
 $- 120$
 $\text{Factor income to abroad}$
 $= 1300 - 1400 + 60 + 120$
 $= ₹80 \text{ (in '000 crores)}$

290. From the following data, estimate the value of Net Indirect Taxes (NIT):

S.No	Particulars	Amt. in (₹ crores)
(i)	Net National Product at Market Price (NNP_{MP})	1,400
(ii)	Net Factor Income from abroad	(-) 20
(iii)	Gross National Product at Factor Cost (GNP_{FC})	1,300
(iv)	Consumption of fixed capital	100

Ans :

COMP 2002

$NNP_{MP} = GNP_{FC} + \text{Net Indirect Tax}$
 $- \text{Depreciation}$
 $(i) = (iii) + \text{Net Indirect Tax} - (iv)$
 $1,400 = 1,300 + \text{Net Indirect Tax} - 100$
 $\text{Net Indirect Taxes} = 1,400 - 1200 = ₹200$

291. Calculate:

- (i) Gross Domestic Product at Market Price
(ii) Factor Income from Abroad from the following data:

		(₹ in '000 crores)
(i)	Profits	500
(ii)	Exports	40
(iii)	Compensation of employees	1,500
(iv)	Gross national product at factor	2,800
(v)	Net current transfers from rest of the world	90

(vi)	Rent	300
(vii)	Interest	400
(viii)	Factor income to abroad	120
(ix)	Net indirect taxes	250
(x)	Net domestic capital formation	650
(xi)	Gross fixed capital formation	700
(xii)	Change in stock	50

Ans :

OD 2010

- (i) Gross Domestic Product at Market Price

$GDP_{MP} = \text{Compensation of employees} + \text{Rent}$
 $+ \text{Interest} + \text{Profits}$
 $+ (\text{Gross fixed capital formation})$
 $+ \text{Change in stock}$
 $- \text{Net domestic capital formation}$
 $+ \text{Net indirect taxes}$
 $= 1,500 + 300 + 400 + 500 + (700 + 50$
 $- 650) + 250$
 $= 1,500 + 300 + 400 + 500 + 100 + 250$
 $= ₹3,050 \text{ crore (in '000 crores)}$

- (ii) $GDP_{MP} = GNP_{FC} + \text{Net indirect taxes}$
 $= 2,800 + 250 = 3,050$

$\text{Net factor income earned from abroad}$
 $= GNP_{MP} - GDP_{MP} = 3,050 - 3,050$
 $= 0$

$\text{Factor income from abroad} + \text{Factor income to abroad} = 0$
Or, $\text{Factor Income from abroad} - 120 = 0$
 $\text{Factor income from abroad}$
 $= ₹120 \text{ (in '000 crores)}$

292. From the following data calculate:

- (i) Gross domestic product at market price
(ii) Factor income from abroad.

		(₹ in '000 crores)
(i)	Gross national product at factor cost	6,150
(ii)	Net exports	(-) 50
(iii)	Compensation of employees	3,000
(iv)	Rent	800

(v)	Interest	900
(vi)	Profit	1,300
(vii)	Net indirect taxes	300
(viii)	Net domestic capital formation	800
(ix)	Gross fixed capital formation	850
(x)	Change in stock	50
(xi)	Dividend	300
(xii)	Factor income to abroad	80

Ans :

OD 2010

(i) Gross Domestic Product at Market Price:

$$\begin{aligned}
 \text{GDP}_{\text{MP}} &= \text{Compensation of employees} + \text{Rent} \\
 &\quad + \text{Interest} + \text{Profit} + \text{Net indirect tax} \\
 &\quad + (\text{Gross fixed capital formation} \\
 &\quad \quad + \text{Change in stock} \\
 &\quad \quad - \text{Net domestic capital formation}) \\
 &= 3,000 + 800 + 900 + 1,300 + 300 \\
 &\quad + (850 + 50 - 800) \\
 &= 6,300 + 100 = \text{₹6,400 crore}
 \end{aligned}$$

(ii) Factor Income from abroad

$$\begin{aligned}
 &= \text{GNP}_{\text{FC}} - \text{GDP}_{\text{MP}} + \text{Net indirect tax} \\
 &\quad + \text{Factor income to abroad} \\
 &= 6,150 - 6,400 + 300 + 80 \\
 &= 6,530 - 6,400 = \text{₹130 crore}
 \end{aligned}$$

293. Calculate 'Net Domestic Product at Factor Cost' from the following:

		(₹ in crores)
(i)	Domestic product accruing to government	300
(ii)	Wages and salaries	1,000
(iii)	Net current transfers to abroad	(-) 20
(iv)	Rent	100
(v)	Interest paid by the production units	130
(vi)	National debt interest	30
(vii)	Corporation tax	50
(viii)	Current transfers by government	40

(ix)	Contribution to social security schemes by employers	200
(x)	Dividends	100
(xi)	Undistributed profits	20
(xii)	Net factor income to abroad	0

Ans :

OD 2011

$$\begin{aligned}
 \text{NDP}_{\text{FC}} &= \text{Wages and salaries} + \text{Contribution to social security schemes by employers} \\
 &\quad + \text{Rent} + \text{Interest paid by production units} + \text{Corporation tax} + \text{Dividends} \\
 &\quad + \text{Undistributed profits} \\
 &= 1,000 + 200 + 100 + 130 + 50 + 100 + 20 \\
 &= \text{₹1,600 crores}
 \end{aligned}$$

294. Calculate 'Net National Product at Factor Cost' from the following:

		(₹ in crores)
(i)	Profits	200
(ii)	Net current transfers to abroad	(-) 10
(iii)	Royalty	10
(iv)	Wages and salaries	600
(v)	Consumption of fixed capital	60
(vi)	National debt interest	80
(vii)	Interest paid by production units	120
(viii)	Social security contributions by employers	100
(ix)	Net factor income to abroad	(-) 20
(x)	Rent	50
(xi)	Net indirect tax	70

Ans :

FOREIGN 2011

$$\begin{aligned}
 \text{NNP}_{\text{FC}} &= \text{Wages and salaries} + \text{Social security contribution by employers} + \text{Rent} \\
 &\quad + \text{Interest paid by production units} \\
 &\quad + \text{Royalty} + \text{Profits} \\
 &\quad - \text{Net factor income to abroad} \\
 &= 600 + 100 + 50 + 120 + 10 + 200 - (-20) \\
 &= \text{₹1,100 (crores)}
 \end{aligned}$$

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295. Find out Net National Product at Market Price:

		(₹ in crores)
(i)	Net current transfers from abroad	(-) 10
(ii)	Wages and salaries	1,000
(iii)	Net factor income to abroad	(-) 20
(iv)	Social security contributions by employers	100
(v)	Net indirect tax	80
(vi)	Rent	300
(vii)	Consumption of fixed capital	120
(viii)	Corporation Tax	50
(ix)	Dividend	200
(x)	Undistributed profits	60
(xi)	Interest	400

Ans :

DELHI 2012

Net National Product at Market Price

$$\begin{aligned}
 &= \text{Wages and salaries} + \text{Social security contributions by employers} + \text{Rent} + \text{Interest} \\
 &\quad + \text{Corporation tax} + \text{Dividend} + \text{Undistributed profits} + \text{Net indirect tax} - \text{Net factor income to abroad} \\
 &= 1,000 + 100 + 300 + 400 + 50 + 200 + 60 + 80 - (-) 20 = ₹2,210 \text{ crores}
 \end{aligned}$$

296. Calculate “Gross National Product at Market Price” from the following data:

		(₹ in crores)
(i)	Compensation of employees	2,000
(ii)	Interest	500
(iii)	Rent	700
(iv)	Profits	800
(v)	Employer's contribution to social security schemes	200
(vi)	Dividends	300
(vii)	Consumption of fixed capital	100
(viii)	Net indirect tax	250
(ix)	Net exports	70

(x)	Net factor income to abroad	150
(xi)	Mixed income of self-employed	1,500

Ans :

OD 2013

Gross National Product at Market Price

GNP at MP

$$\begin{aligned}
 &= \text{Compensation of employees} + \text{Interest} + \text{Rent} \\
 &\quad + \text{Profits} + \text{Mixed income of self-employed} + \text{Consumption of fixed capital} + \text{Net indirect taxes} - \text{Net factor income to abroad} \\
 &= 2,000 + 500 + 700 + 800 + 1,500 + 100 + 250 - 150 = ₹5,700 \text{ crores}
 \end{aligned}$$

297. Calculate ‘Net National Product at Factor Cost’ from the following:

		(₹ in crores)
(i)	Social security contributions by employees	90
(ii)	Wages and salaries	800
(iii)	Net current transfers to abroad	(-) 30
(iv)	Rent and royalty	300
(v)	Net factor income to abroad	50
(vi)	Social security contributions by employers	100
(vii)	Profit	500
(viii)	Interest	400
(ix)	Consumption of fixed capital	200
(x)	Net indirect tax	250

Ans :

OD 2014

NNP_{FC}

$$\begin{aligned}
 &= \text{Wages and salaries} + \text{Social security contributions by employers} + \text{Rent and royalty} \\
 &\quad + \text{Interest} + \text{Profit} - \text{Net factor income to abroad} \\
 &= 800 + 100 + 300 + 400 + 500 - 50 \\
 &= 2,100 - 50 = ₹2,050 \text{ crores}
 \end{aligned}$$

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298. Calculate 'Gross National Product at Market Price':

		(₹ in crores)
(i)	Rent	100
(ii)	Net current transfers to rest of the world	30
(iii)	Social security contributions by employers	47
(iv)	Mixed income	600
(v)	Gross domestic capital formation	140
(vi)	Royalty	20
(vii)	Interest	110
(viii)	Compensation of employees	500
(ix)	Net domestic capital formation	120
(x)	Net factor income from abroad	(-) 10
(xi)	Net indirect tax	150
(xii)	Profit	200

Ans :

DELHI 2015

Depreciation

= Gross domestic capital formation - Net domestic capital formation

= 140 - 120 = ₹20

NDP_{FC}

= Compensation of employees + Rent + Interest + Royalty + Profit + Mixed income

= 500 + 100 + 110 + 20 + 200 + 600

= ₹1,530 crores

Gross National Product at Market Price

= NDP_{FC} + Depreciation + Net indirect tax + Net factor income from abroad

= 1,530 + 20 + 150 + (-10) = ₹1,690 crores

299. Calculate the 'National Income':

		(₹ in crores)
(i)	Rent	200
(ii)	Net factor income to abroad	10
(iii)	National debt interest	15
(iv)	Wages and salaries	700

(v)	Current transfers from government	10
(vi)	Undistributed profits	20
(vii)	Corporation tax	30
(viii)	Interest	150
(ix)	Social security contribution by employers	100
(x)	Net domestic product accruing to government	250
(xi)	Net current transfers to rest of the world	5
(xii)	Dividends	50

Ans :

OD 2015

National Income (NNP_{FC})

= Wages and salaries + Social security contributions by employers + Rent + Interest + Undistributed profits + Corporation tax + Dividends - Net factor income to abroad
 = 700 + 100 + 200 + 150 + 20 + 30 + 50 - 10
 = ₹1,240 crores

300. Find national income:

		(₹ in crores)
(i)	Wages and salaries	1,000
(ii)	Net current transfer to abroad	20
(iii)	Net factor income paid to abroad	10
(iv)	Profit	400
(v)	National debt interest	120
(vi)	Social security contributions by employers	100
(vii)	Current transfers from government	60
(viii)	National income accruing to government	150
(ix)	Rent	200
(x)	Interest	300
(xi)	Royalty	55

Ans :

DELHI 2016

NDP_{FC}

= Wages and salaries + Social security contributions by employers + Profit + Rent + Interest + Royalty

$$\begin{aligned}
 &= 1,000 + 100 + 400 + 200 + 300 + 50 \\
 &= ₹2,050 \text{ crores} \\
 \text{NNP}_{\text{FC}} (\text{National Income}) \\
 &= \text{NDP}_{\text{FC}} - \text{Net factor income paid to abroad} \\
 &= 2,050 - 10 = ₹2,040 \text{ crores}
 \end{aligned}$$

301. Find net national product at market price:

		(₹ in crores)
(i)	Personal taxes	200
(ii)	Wages and salaries	1,200
(iii)	Undistributed profit	50
(iv)	Rent	300
(v)	Corporation tax	200
(vi)	Private income	2,000
(vii)	Interest	400
(viii)	Net indirect tax	300
(ix)	Net factor income to abroad	20
(x)	Profit	500
(xi)	Social security contributions by employers	250

Ans : DELHI 2016

$$\begin{aligned}
 \text{NNP}_{\text{MP}} \\
 &= \text{Wages and salaries} + \text{Social security contributions by employers} + \text{Rent} + \text{Interest} + \text{Profit} - \text{Net factor income to abroad} + \text{Net indirect tax} \\
 &= 1,200 + 250 + 300 + 400 + 500 - 20 + 300 \\
 &= ₹2,930 \text{ crores}
 \end{aligned}$$

302. Calculate net domestic product at market price:

		(₹ in crores)
(i)	Compensation of employees	4,000
(ii)	Dividend	500
(iii)	Mixed income	8,000
(iv)	Social security contribution by employers	400
(v)	Net factor income to abroad	600

(vi)	Net indirect taxes	1,000
(vii)	Rent	800
(viii)	Consumption of fixed capital	1,200
(ix)	Profit	1,500
(x)	Net current transfers to rest of the world	200
(xi)	Interest	700

Ans : OD 2016

$$\begin{aligned}
 \text{NDP}_{\text{MP}} \\
 &= \text{Compensation of employees} + \text{Mixed income} + \text{Rent} + \text{Profit} + \text{Interest} + \text{Net indirect taxes} \\
 &= 4,000 + 8,000 + 800 + 1,500 + 700 + 1,000 \\
 &= ₹16,000 \text{ crores}
 \end{aligned}$$

303. Calculate National Income.

		(₹ in crores)
(i)	Compensation of employees	2,000
(ii)	Rent	400
(iii)	Profit	900
(iv)	Dividend	100
(v)	Interest	500
(vi)	Mixed income of self-employed	7,000
(vii)	Net factor income to abroad	50
(viii)	Net exports	60
(ix)	Net indirect taxes	300
(x)	Depreciation	150
(xi)	Net current transfers to abroad	30

Ans : OD 2017

$$\begin{aligned}
 \text{NDP}_{\text{FC}} \\
 &= \text{Compensation of employees} + \text{Rent} + \text{Profit} + \text{Interest} + \text{Mixed income of self-employed} \\
 &= 2,000 + 400 + 900 + 500 + 7,000 + 7,000 \\
 &= ₹10,800 \text{ crores} \\
 \text{NNP}_{\text{FC}} (\text{National Income}) \\
 &= \text{NDP}_{\text{FC}} - \text{Net factor income to abroad} \\
 &= 10,800 - 50 = ₹10,750 \text{ crores}
 \end{aligned}$$

- 304.** Calculate the Gross National Product at market price.

		(₹ in crores)
(i)	Compensation of employees	2,500
(ii)	Profit	700
(iii)	Mixed income of self-employed	7,500
(iv)	Government final consumption expenditure	3,000
(v)	Rent	400
(vi)	Interest	350
(vii)	Net factor income from abroad	50
(viii)	Net current transfers to abroad	100
(ix)	Net indirect taxes	150
(x)	Depreciation	70
(xi)	Net exports	40

Ans : OD 2017

NDP_{FC}

$$= \text{Compensation of employees} + \text{Profit} + \text{Rent} + \text{Interest} + \text{Mixed income of self-employed}$$

$$= 2,500 + 700 + 400 + 350 + 7,500$$

$$= ₹11,450 \text{ crores}$$

GNP_{MP}

$$= NDP_{FC} - \text{Depreciation} + \text{Net indirect taxes} + \text{Net factor income from abroad}$$

$$= 11,450 + 70 + 150 + 50 = ₹11,720 \text{ crores}$$

- 305.** Calculate Gross Domestic Product at Market Price:

		(₹ in crores)
(i)	Net current transfers to the rest of world	(-) 10
(ii)	Consumption of fixed capital	70
(iii)	Mixed income of self-employed	500
(iv)	Subsidies	20
(v)	Social security contributions by employers	100
(vi)	Operating surplus	300

(vii)	Wages and salaries	600
(viii)	Indirect tax	120
(ix)	Net factor income to abroad	30
(x)	Rent	80

Ans :

COMP 2017

GDP_{MP}

$$= \text{Wages and salaries} + \text{Social security contributions by employers} + \text{Operating surplus} + \text{Mixed income of self-employed} + \text{Indirect tax} - \text{Subsidy} + \text{Consumption of fixed capital}$$

$$= 600 + 100 + 300 + 500 + 120 - 20 + 70$$

$$= ₹1,670 \text{ crores}$$

- 306.** Calculate (i) Operating Surplus and (ii) Domestic Income:

		(₹ in crores)
(i)	Compensation of employees	2,000
(ii)	Rent and interest	800
(iii)	Indirect taxes	120
(iv)	Corporation tax	460
(v)	Consumption of fixed capital	100
(vi)	Subsidies	20
(vii)	Dividend	940
(viii)	Undistributed profits	300
(ix)	Net factor income to abroad	150
(x)	Mixed income	200

Ans :

DELHI 2018

(i) Operating Surplus

$$= \text{Interest} + \text{Corporation Tax} + \text{Dividend} + \text{Undistributed Profits}$$

$$= 800 + 460 + 940 + 300 = ₹2,500 \text{ crores}$$

(ii) Domestic Income (NDP_{FC})

$$= \text{Compensation of employees} + \text{Rent and Interest} + \text{Corporation tax} + \text{Dividend} + \text{Undistributed Profits} + \text{Mixed Income}$$

$$= 2,000 + 800 + 460 + 940 + 300 + 200$$

$$= ₹4,700 \text{ crores}$$

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- 307.** Give the following data, find the missing value of 'Government Final Consumption Expenditure' and 'Mixed Income of Self Employed'.

		(₹ in crores)
(i)	National income	71,000
(ii)	Gross domestic capital formation	10,000
(iii)	Government final consumption expenditure	?
(iv)	Mixed income of self-employed	?
(v)	Net factor income from abroad	1,000
(vi)	Net indirect taxes	2,000
(vii)	Profits	1,200
(viii)	Wages and salaries	15,000
(ix)	Net exports	5,000
(x)	Private final consumption expenditure	40,000
(xi)	Consumption of fixed capital	3,000
(xii)	Operating surplus	30,000

Ans :

SQP 2019

National Income,

$$NNP_{FC} = ₹71,000$$

$$NDP_{FC} = NNP_{FC} - NFIA$$

$$= 71,000 - 1,000 = ₹70,000 \text{ crore}$$

$$NDP_{FC} = \text{Mixed income of self employed} \\ + \text{Wages and Salaries} \\ + \text{Operating Surplus}$$

$$₹70,000 = \text{Mixed income of self employed} \\ + 15,000 + 30,000$$

Mixed income of Self Employed

$$= 70,000 - 15,000 - 30,000$$

$$= 70,000 - 45,000 = ₹25,000 \text{ crore}$$

$$GDP_{MP} = NNP_{FC} - NFIA + \text{Net Indirect Taxes} \\ + \text{Consumption of fixed capital}$$

$$GDP_{MP} = 71,000 - 1,000 + 2,000 + 3,000$$

$$= 70,000 + 5,000 = ₹75,000 \text{ crore}$$

$$GDP_{MP} = \text{Gross capital formation}$$

$$+ \text{Government final consumption expenditure} \\ + \text{Net exports} + \text{Private final consumption expenditure}$$

$$75,000 = 10,000 + \text{Government final}$$

$$\text{consumption expenditure} + 5,000 + 40,000$$

$$\text{Government final consumption expenditure}$$

$$= 75,000 - 10,000 - 5,000 - 40,000$$

$$= 75,000 - 55,000 = ₹20,000 \text{ crores}$$

NODIA

- 308.** Give the following data, find the missing values of 'Private Final Consumption Expenditure' and 'Operating Surplus'.

		(₹ in crores)
(i)	National income	50,000
(ii)	Net indirect taxes	1,000
(iii)	Private final consumption expenditure	?
(iv)	Gross domestic capital formation	17,000
(v)	Profits	1,000
(vi)	Government final consumption expenditure	12,500
(vii)	Wages and salaries	20,000
(viii)	Consumption of fixed capital	700
(ix)	Mixed income of self-employed	13,000
(x)	Operating surplus	?
(xi)	Net factor income from abroad	500
(xii)	Net exports	2,000

Ans :

SQP 2013

National Income,

$$NNP_{FC} = ₹50,000$$

$$NDP_{FC} = NNP_{FC} - NFIA$$

$$= 50,000 - 500 = ₹49,500 \text{ crore}$$

$$NDP_{FC} = \text{Wages and Salaries} + \text{Mixed income of self employed} + \text{Operating surplus}$$

$$49,500 = 20,000 + 13,000 + \text{Operating Surplus}$$

$$\text{Operating surplus} = 49,500 - 20,000 - 13,000$$

$$= 49,500 - 33,000$$

$$= ₹16,500 \text{ crore}$$

$$GDP_{MP} = NNP_{FC} + \text{Consumption of fixed capital} \\ + \text{Net indirect taxes}$$

$$= \text{Net factor income from abroad}$$

$$GDP_{MP} = 50,000 + 700 + 1,000 - 500$$

$$= ₹51,200 \text{ crore}$$

$$\begin{aligned} \text{GDP}_{\text{MP}} &= \text{Private final consumption expenditure} \\ &\quad + \text{Government final consumption expenditure} \\ &\quad + \text{Gross domestic capital formation} \\ &\quad + \text{Net exports} \end{aligned}$$

$$\begin{aligned} ₹51,200 &= \text{Private final consumption expenditure} \\ &\quad + 12,500 + 17,000 + 2,000 \end{aligned}$$

$$\begin{aligned} \text{Private final consumption expenditure} \\ &= 51,200 - 12,500 - 17,000 - 2,000 \\ &= 51,200 - 31,500 = ₹19,700 \text{ crore} \end{aligned}$$

- 309.** If the Real Gross Domestic Product (GDP) in an economy is ₹520 crores and Nominal Gross Domestic Product (GDP) is ₹650 crores, calculate the price Index.

Ans : (2020 Series : HMJ/5)

$$\text{Real GDP} = \frac{\text{Nominal GDP}}{\text{Price Index}} \times 100$$

$$520 = \frac{650}{\text{Price Index}} \times 100$$

$$\text{Price Index} = \frac{65,000}{520} = ₹125 \text{ crores}$$

- 310.** When Nominal Gross Domestic Product (GDP) is ₹850 crores and Price Index is 170, Real Gross Domestic Product (GDP) will be
(Fill up the blank with correct answer)

Ans : FOREIGN 2020

As we know,

$$\begin{aligned} \text{Real GDP} &= \frac{\text{Nominal GDP}}{\text{Price Index}} \times 100 \\ &= \frac{850}{170} \times 100 = ₹500 \text{ crores} \end{aligned}$$

- 311.** If Real GDP is ₹200 and Price Index (with base = 100) is 110, calculate Nominal GDP.

Ans : DELHI 2015

Given:

$$\text{Real GDP} = ₹200$$

$$\text{Price Index} = 110 \text{ and Nominal GDP} = ?$$

$$\text{Real GDP} = \frac{\text{Nominal GDP}}{\text{Price Index}} \times 100$$

$$200 = \frac{\text{Nominal GDP}}{110} \times 100$$

$$\text{Nominal GDP} = \frac{200 \times 110}{100} = ₹220$$

- 312.** If the Nominal GDP is ₹1,200 and Price Index (with base = 100) is 120, calculate Real GDP.

Ans : DELHI 2015

Given:

$$\text{Nominal GDP} = ₹1,200$$

$$\text{Price Index} = 120; \text{ Real GDP} = ?$$

$$\text{Real GDP} = \frac{\text{Nominal GDP}}{\text{Price Index}} \times 100$$

$$\text{Real GDP} = \frac{1,200}{120} \times 100 = ₹1,000$$

- 313.** If the Real GDP is ₹300 and Nominal GDP is ₹330, calculate Price Index (base = 100).

Ans : DELHI 2015

Given:

$$\text{Nominal GDP} = ₹330; \text{ Real GDP} = ₹300;$$

$$\text{Price Index} = ?$$

$$\text{Real GDP} = \frac{\text{Nominal GDP}}{\text{Price Index}} \times 100$$

$$300 = \frac{330}{\text{Price Index}} \times 100$$

$$\text{Price Index} = \frac{330}{300} \times 100 = ₹110$$

- 314.** If the Real GDP is ₹500 and Price Index (base = 100) is 125, calculate the Nominal GDP.

Ans : OD 2015

Given: $\text{Real GDP} = ₹500$

$$\text{Price Index} = 125; \text{ Nominal GDP} = ?$$

$$\text{Real GDP} = \frac{\text{Nominal GDP}}{\text{Price Index}} \times 100$$

$$500 = \frac{\text{Nominal GDP}}{125}$$

$$\text{Nominal GDP} = \frac{500 \times 125}{100} = ₹625$$

- 315.** If the Nominal GDP is ₹600 and Price Index (base = 100) is 120, calculate the Real GDP.

Ans : OD 2015

Given: $\text{Nominal GDP} = ₹600$

$$\text{Price Index} = 120; \text{ Real GDP} = ?$$

$$\text{Real GDP} = \frac{\text{Nominal GDP}}{\text{Price Index}} \times 100$$

$$\text{Real GDP} = \frac{₹600}{120} \times 100 = ₹500$$

- 316.** If nominal income is ₹500 and price index is 125, calculate real income.

Ans : OD 2016

Given:

$$\text{Nominal Income} = ₹500$$

$$\text{Price Index} = 125;$$

$$\text{Real Income} = \frac{\text{Nominal GDP}}{\text{Price Index}} \times 100$$

$$\text{Real Income} = \frac{₹500}{125} \times 100 = ₹400$$

- 317.** If real income is ₹400 and price index is 105, calculate nominal income.

Ans :

OD 2016

Given: Real Income = ₹400

Price Index = 105

$$\text{Real Income} = \frac{\text{Nominal GDP}}{\text{Price Index}} \times 100$$

$$₹400 = \frac{\text{Nominal Income}}{105} \times 100$$

$$\text{Nominal Income} = \frac{₹400 \times 105}{100} = ₹420$$

- 318.** Assuming real income to be ₹200 crore and price index to be 135, calculate nominal income.

Ans :

OD 2016

Real Income = ₹200 crore,

Price index = 135

$$\text{Real Income} = \frac{\text{Nominal GDP}}{\text{Price Index}} \times 100$$

$$₹200 = \frac{\text{Nominal Income}}{135} \times 100$$

$$\begin{aligned} \text{Nominal Income} &= \frac{₹200 \times 135}{100} \\ &= ₹270 \text{ crore} \end{aligned}$$

- 319.** If the Real GDP is ₹300 and Nominal GDP is ₹350, calculate the Price Index (base = 100).

Ans :

OD 2016

Given: Real GDP = ₹300;

Price Index = ?

Nominal GDP = ₹350

$$\text{Real GDP} = \frac{\text{Nominal GDP}}{\text{Price Index}} \times 100$$

$$300 = \frac{350}{\text{Price Index}} \times 100$$

$$\text{Price Index} = \frac{350}{300} \times 100$$

$$= ₹116.6 \text{ (Approx)}$$

- 320.** Suppose only one Good 'X' is produced in the country. Output of Good X during year 2018 and 2019 were 100 units and 110 units respectively. The market price of the product during the two years was ₹50 and ₹55 per unit respectively.

Calculate the percentage change in Real Gross Domestic Product (GDP) in year 2019 using 2018 as the base year.

Ans :

FOREIGN 2023

Year	Units	Market price (MP) (₹)	Real GDP (₹) Units × MP
2018	100	50	50 × 100 = 5,000
2019	110	55	55 × 110 = 6,000

% change in Real GDP

$$\begin{aligned} &= \frac{\text{Change in Real GDP}}{\text{Base Year Real GDP}} \times 100 \\ &= \frac{5,500 - 5,000}{5,000} \times 100 \\ &= \frac{500}{5,000} \times 100 = 10\% \end{aligned}$$

- 321.** Suppose only one Good 'X' is produced in the country. Output of 'Good X' during 2018 & 2019 were 100 units & 120 units respectively. The market price of the product during the two years was ₹50 and ₹60 per unit respectively. Calculate the percentage change in Real Gross Domestic Product (GDP) in year 2019, using 2018 as the base year.

Ans :

FOREIGN 2023

Year	Units	Price per unit (₹)	Real GDP (₹) Units × Price Per Unit
2018	100	50	5,000
2019	120	60	6,000

% Change in Real GDP

$$\begin{aligned} &= \frac{\text{Change in Real GDP}}{\text{Base Year Real GDP}} \times 100 \\ &= \frac{6,000 - 5,000}{5,000} \times 100 \\ &= \frac{1,000}{5,000} \times 100 = 20\% \end{aligned}$$

- 322.** Using the following information, calculate and analyse the value of Gross Domestic Product (GDP) deflator:

Ans :

COMP 2022

Year	2014-15	2016-17
Nominal GDP	6.5	9
Real GDP	6.5	7.2

For 2014 - 15:

$$\begin{aligned}\text{GDP Deflator} &= \frac{\text{Nominal GDP}}{\text{Real GDP}} \times 100 \\ &= \frac{6.5}{6.5} \times 100 = 100\%\end{aligned}$$

For 2016 - 17:

$$\begin{aligned}\text{GDP Deflator} &= \frac{\text{Nominal GDP}}{\text{Real GDP}} \times 100 \\ &= \frac{9}{7.2} \times 100 = 125\%\end{aligned}$$

CASE BASED QUESTION

323. Read the para given below and answer the questions that follow:

Economic growth has improved living standards globally, but Gross Domestic Product (GDP), the common measure of growth, focuses only on economic size, ignoring welfare. GDP measures the value of goods and services produced in an economy but does not account for the social or environmental costs of production. For instance, it includes the value of cars and sugar-laced drinks but excludes the pollution and health issues they cause.

GDP also overlooks vital aspects like environmental degradation and income inequality. While it increases with higher production, it fails to reflect the damage to natural resources or the unequal distribution of wealth, which leads to societal discontent and polarization. Policymakers must address these limitations to evaluate true development effectively.

- (i) Loss in the value of fixed assets due to national calamities and economic recession is called as _____ (Depreciation/Capital Loss).
- (ii) Which of the following is included in the estimation of National Income.
 - (a) Remittances from abroad
 - (b) Salary paid to a foreign technical
 - (c) Reimbursement of travelling expenses to salesman incurred while doing official work.
 - (d) Expenditure incurred by a foreign tourist in the country.

(iii) Following is an advantage of real GDP:

- (a) It is used to make international comparison
- (b) It shows the availability of goods and services to the people
- (c) It ignores the inequalities in the distribution of income
- (d) Both (a) and (b)

(iv) Match the following :

	Column I		Column II
1.	Real Flows	A.	milk used by a bakery
2.	Intermediate goods	B.	physical flow of goods and services
3.	Money Flows	C.	nominal flow
4.	Final goods	D.	food grains used by a household

- (a) B, A, D, C
- (b) B, A, C, D
- (c) A, C, B, D
- (d) A, B, C, D

Ans :

- (i) Capital Loss
- (ii) (d) Expenditure incurred by a foreign tourist in the country.
- (iii) (d) Both (a) and (b)
- (iv) (b) B, A, C, D

324. Read the paragraph given below and answer the questions that follow:

India's GDP is calculated using two methods, yielding slightly different but comparable figures. The first method calculates GDP at factor cost, based on the net value changes across eight economic sectors. This figure, commonly reported in the media, helps gauge the economy's overall health and informs policy and investment decisions.

The second method calculates GDP at market prices by summing expenditures on final goods and services, including household consumption, net investments, government spending and net trade. While the results from these methods may not match precisely, they provide valuable insights into the contributions of various sectors to the economy.

- (i) From the set of statements given in column I and II, choose the correct pair of statements:

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	Column I		Column II
1.	GDP	A.	Sum of factor incomes generated in the domestic territory.
2.	Domestic factor income	B.	Value of all final goods and services produced by the normal residents of the country.
3.	GNP	C.	Value of final goods and services produced in the domestic territory.
4.	National income	D.	Sum of factor incomes of normal residents of the country.

- (a) 1-A
(b) 2-B
(c) 3-C
(d) 4-D
- (ii) The difference between National Income and Domestic Income is:
(a) Net indirect taxes
(b) Consumption of fixed capital
(c) Net factor income earned from abroad
(d) Subsidies
- (iii) Identify the items which will be excluded from the estimation of National Income:
(a) Profits earned by an Indian bank from its branches abroad
(b) Proceeds from sale of land
(c) Earnings of a self-employed doctor having a clinic at his residence
(d) Contribution to provident fund by an employer
- (iv) National Income at current price will be equal to National Income at constant prices when price in the base year will be equal to price in the _____ (current/past) year.

Ans :

- (i) (d) 4-D
(ii) (c) Net factor income earned from abroad = National Income Minus Domestic Income
(iii) (b) Proceeds from sale of land
(iv) Current

325. Read the paragraph given below and answer the questions that follow:

The production process relies on factors of production like land, labor, capital and entrepreneurship, for which producers incur costs. These costs, referred to as factor costs, include expenses like rent, wages, interest and entrepreneurial profit but exclude taxes. Subsidies, however, are included as they directly offset production costs.

Price is the price consumers pay, which is calculated by adjusting the factor cost. Taxes are added since they increase the price, while subsidies are subtracted as they reduce the effective cost. For example, if the government provides a subsidy on interest, it lowers the interest cost (a factor cost), reducing the market price of the product.

- (i) Sales + Change in stock = _____.
(a) Value of output
(b) Intermediate consumption
(c) Gross value added
(d) Net value added
- (ii) Which of the following will be included in the estimation of domestic income of the nation?
(a) Profits earned by branches of country's bank in another country
(b) Gift given by an employer to his employees on Independence Day
(c) Purchase of goods by foreign tourists in our country
(d) Scholarships given by the government
- (iii) Net indirect taxes = Indirect taxes - _____.
(Subsidies/Intermediate consumption)
- (iv) Road constructed by a factory owner to connect the village and town is an example of a _____ (positive/negative) externality.

Ans :

- (i) (a) Value of output
(ii) (c) Purchase of goods by foreign tourists in our country
(iii) Subsidies
(iv) Positive

326. Read the paragraph given below and answer the questions that follow:

Net Foreign Factor Income (NFFI) refers to the difference between a nation's Gross National Product (GNP) and its Gross Domestic Product (GDP). It measures the net balance of earnings generated abroad by a nation's citizens and

companies versus the income earned by foreign individuals and companies within the country.

In most nations, the NFFI level is relatively minor as earnings from citizens and payments to foreigners tend to offset each other. However, in smaller economies with significant foreign investment and limited overseas assets, NFFI can be substantial. For such nations, GDP might exceed GNP significantly, as GDP includes the profits foreign companies remit back to their home countries.

For instance, if a country has high remitted profits compared to its overseas earnings, the NFFI will be negative and its GNP will fall below GDP. In today's globalized world, where cross-border movement of people and businesses is easier, NFFI plays an increasingly significant role in understanding national economic dynamics.

- (i) From the set of statements given in column I and column II, choose the correct pair of statements:

	Column I		Column II
1.	Value of output	A.	production of goods and services valued at current prices
2.	Real GDP	B.	production of goods and services valued at constant prices
3.	Depreciation	C.	market value of goods and services produced during a year
4.	Nominal GDP	D.	consumption of fixed capital

- (a) 1-A
(b) 2-B
(c) 3-C
(d) 4-D

- (ii) Which of the following items is part of compensation of employees?
- (a) Entertainment allowance to an employee to entertain business guests
(b) Old age pension
(c) Payment of Insurance claim by LIC to the injured worker
(d) Medical expenses of a firm on treatment of employees family

- (iii) Domestic demand for goods and services refers to:

- (a) Value of final goods and services produced within the domestic territory which are being demanded within the country and abroad.
(b) Value of final goods and services produced within the country and abroad which are being demanded within the country.
(c) Both (a) and (b)
(d) Neither (a) nor (b)

- (iv) What will be the GDP of a country based on the following data:

S.No.	Particulars	Amount (in ₹ crore)
1.	GNP	1,000
2.	NFFI	275

- (a) ₹1275 crore
(b) ₹875 crore
(c) ₹725 crore
(d) ₹1000 crore

Ans :

- (i) (b) 2-B
(ii) (d) Medical expenses of a firm on treatment of employees family
(iii) (b) Value of final goods and services produced within the country and abroad which are being demanded within the country.
(iv) (c) ₹725 crore

- 321.** Read the paragraph given below and answer the questions that follow:

GDP measures both the economy's total income and the economy's total expenditure on goods and services. Thus, GDP per person tells us the income and expenditure of the average person in the economy. Because most people would prefer to receive higher income and enjoy higher expenditure, GDP per person seems a natural measure of the economic well-being of the average individual.

GDP is not, however, a perfect measure of well-being. Few things that contribute to a good life are left out of GDP. One is leisure. Suppose, for instance, that everyone in the economy suddenly started working all the days of the week, rather than enjoying leisure on weekends. More goods and services would be produced and GDP would rise. Yet despite the increase in GDP, we can not conclude that everyone would be better off. The loss from reduced leisure would offset the gain

from producing and consuming a greater quantity of goods and services.

Because GDP uses market prices to value goods and services, it excludes the value of almost all activities that takes place outside markets. Another thing that GDP excludes is the quality of the environment. Imagine that the government eliminated all environmental regulations. Firms could then produce goods and services without considering the pollution they create and GDP might rise. Yet well-being would most likely fall. The deterioration in the quality of air and water would offset the gains from greater production.

- (i) GDP as a measure of welfare includes:
 - (a) Externalities
 - (b) Social progress index
 - (c) Market transactions
 - (d) Both (a) and (c)
- (ii) Following is an example of positive externality:
 - (a) Construction of flyovers
 - (b) A newly developed park being frequented by anti social elements
 - (c) Opening of water polluting oil refinery
 - (d) Increase in production of tobacco
- (iii) _____ is a better indicator of economic growth.
(Real GDP/Nominal GDP)

Ans :

- (i) (c) Market transactions
- (ii) (c) Opening of water polluting oil refinery
- (iii) (a) Real GDP

328. Read the paragraph given below and answer the questions that follow:

One formal definition of GDP is “the market value of all the final goods produced in the entire country in the course of a year”. The “market value” component is important because economists use money prices to solve the problem of aggregation. When estimating GDP with real-world data, economists use two approaches. One is to add up the total income earned by the various factors of production. The other is to add up the total expenditures on final goods and services that are produced within the country. These two approaches are formally equivalent because in a given transaction, the seller’s income equals the buyer’s expenditure.

It is important to remember that GDP is a gross measure of output (not a net measure), meaning

that the GDP concept fails to account for the “using up” of valuable resources that may have been necessary in order to generate the measured flow of output.

- (i) Factor income paid to non-residents within the domestic territory of a country leads to:
 - (a) Decrease in national income
 - (b) Increase in domestic income
 - (c) No change in both domestic and national income
 - (d) Both (a) and (b)
- (ii) From the set of statements given in column-I and II, choose the correct pair of statements:

	Column-I		Column-II
1.	GDP measured at base year prices	A.	Nominal GDP
2.	Sum of factor incomes generated in the domestic territory	B.	Domestic income
3.	Difference between domestic income and national income	C.	National income
4.	Sum of factor incomes earned by normal residents of a country	D.	Net factor income earned from abroad

- (a) 1-A
 - (b) 2-B
 - (c) 3-C
 - (d) 4-D
- (iii) State the impact of Ban on tobacco products on gross domestic product Ban on and welfare.
 - (iv) NFIA is negative when:
 - (a) Income earned from abroad is more than income paid to abroad
 - (b) Income earned from abroad is less than income paid to abroad
 - (c) Income earned from abroad is equal to income paid to abroad
 - (d) NFIA of current year is the same as that of last year

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Ans :

- (i) (d) Both (a) and (b)
- (ii) (b) 2-B
- (iii) Ban on tobacco products will lead to decrease in the gross domestic product of the country but will definitely improve welfare of the society.
- (iv) (b) Income earned from abroad is less than income paid to abroad

329. Read the paragraph given below and answer the questions that follow:

In Gross domestic product, “gross” means that GDP measures production regardless of the various uses to which the product can be put. Production can be used for immediate consumption, for investment into fixed assets or inventories, or for replacing fixed assets that have been depreciated. “Domestic” means that the measurement of GDP contains only products from within its borders.

Nominal GDP is calculated by using the prices that are current in the year in which the output is produced. It takes into account all of the changes that occurred for all goods and services produced during a given year. It is the market value of all final goods produced in a geographical region, usually a country. That market value depends on the quantities of goods and services produced and their respective prices. Therefore, if prices change from one period to the next and the output does not change, the nominal GDP would change even though the output remained constant.

Real GDP is calculated using the prices of a selected base year. To calculate Real GDP, you must determine how much GDP has been changed by inflation since the base year and divide out the inflation each year. Real GDP, therefore, accounts for the fact that if prices change but output does not, nominal GDP would change.

In contrast, real gross domestic product accounts for price changes that may have occurred due to inflation. In other words, real GDP is nominal GDP adjusted for inflation.

- (i) Change in nominal GDP includes:
 - (a) Change in current year prices
 - (b) Change in production of goods and services
 - (c) Change in base year prices
 - (d) Both (a) and (b)
- (ii) If GDP deflator is 120 % and real GDP is 1100, then what will be nominal GDP.

- (iii) Increase in GDP may not lead to increase in welfare as Increased GDP may be concentrated in a few hands leading to inequality in income distribution. (True/False)

Ans :

- (i) (d) Both (a) and (b)
- (ii) As we know,

$$\text{Real GDP} = \frac{\text{Nominal GDP}}{\text{GDP deflator}} \times 100$$

$$\text{Nominal GDP} = 1,100 \times \frac{120}{100} = ₹1,320$$

- (iii) True

330. Read the paragraph given below and answer the questions that follow:

The Budget Estimate for total spending in 2021-22 is ₹34.83 lakh crore, compared to the Revised Estimate (RE) of ₹34.5 lakh crore for 2020-21. Considering a nominal GDP growth projection of 14.4% and a real GDP forecast of 11%, the GDP deflator is 3.4%. To maintain spending at the same real level, central spending should have risen to ₹35.7 lakh crore. Since this increase has not occurred, the 2021-22 budget indicates a negative fiscal stimulus for the economy.

However, it could be argued that 2020-21 was an exceptional year and the government may be justified in reducing its welfare spending as the economy unlocks and vaccinations progress. This reflects a strategic rollback of pandemic-related fiscal measures.

- (i) State the significance of GDP deflator.
- (ii) If the real GDP is '500 and price index (base = ₹100) is 125, the value of Nominal GDP will be _____.
- (iii) State why expenditure on intermediate goods are not included while estimating National Income from expenditure method.
- (iv) Expenditure on shares and bonds is excluded while estimating National Income Aggregates as it implies paper claims only. It does not add to the flow of goods and services. (True/False)

Ans :

- (i) The GDP deflator, also called implicit price deflator, is a measure of inflation. It is the ratio of the value of goods and services an economy produces in a particular year at current prices to that of prices that prevailed

during the base year.

(ii) As we know,

$$\begin{aligned}\text{Nominal GDP} &= \frac{\text{Real GDP} \times \text{Price Index}}{100} \\ &= \frac{500 \times 125}{100} = ₹625\end{aligned}$$

(iii) Expenditure on intermediate goods is not included while estimating GDP through expenditure method as it has already been included in the value of final product. If it is included, it will lead to the problem of double counting.

(iv) True

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CHAPTER 2

MONEY AND BANKING

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SUMMARY

1. MONEY

Money is anything which is generally accepted as a medium of exchange, measure of value, store of value and as means of standard of deferred payment.

2. BARTER EXCHANGE

Barter is a system of exchange where goods or services are directly exchanged for other goods or services without using a medium of exchange. Difficulties of barter system:

- (i) **Lack of double coincidence of wants** : Double coincidence of wants means finding a person who is willing to buy a good or service being offered and also possesses the good or service which the former wants. Such double coincidence was a difficult probability.
- (ii) **Lack of common measure of value** : This problem related to the rate of exchange between different commodities. The price of each commodity had to be quoted in terms of every other commodity.
- (iii) **Problem of deferred payments** : Transactions regarding future payments could not take place with ease, This was because the quality of good could deteriorate over time.
- (iv) **Lack of store of value** : For storing purpose, good must be portable, non-perishable, require less space and acceptable for exchange anytime.

3. FUNCTIONS OF MONEY

Functions of money can be classified into primary and secondary.

Primary or Basic Functions :

- (i) **Medium of exchange** : It means that money can be used to make payments for exchange of goods and services. This function solves the problem of double coincidence of wants

and facilitates trade.

- (ii) **Unit of account** : This means that money acts as a common measure of value. It acts as a standard unit for quoting the value of goods and services called as price. This has made possible the keeping of business accounts.

Secondary Functions :

- (i) **Standard of deferred payments** : Deferred payments are those payments which are to be made in future. This has facilitated borrowing and lending activities. It has also led to the creation of financial institutions.
- (ii) **Store of value** : This means that the money can be stored for use in future as it does not lose value. This is possible because money comes in convenient denominations, is easily portable and economical to store and has general acceptability.

4. MONEY SUPPLY (M_s)

It refers to the total volume of money held by public at a particular point of time in an economy. It is a stock variable.

5. COMPONENTS OF MONEY SUPPLY

- (i) Currency with the public. This includes coins and currency notes in circulation.
- (ii) Demand deposits: A deposit on which a cheque can be written.

Measures of money supply:

$$M_s = C + DD + OD$$

...where [C = Currency held by the public; DD = Demand deposits with banks; OD = Other deposits with RBI]

6. BANK MONEY

It refers to the demand deposits with the banks.

6.1 Legal Tender Money

Money which has legal sanction behind it and is accepted as a means of payment is called legal tender money.

6.2 High Powered Money

It consists of currency held by the public and cash reserves of banks.

7. FIAT MONEY

It refers to money which under law must be accepted for all debts, i.e., currency.

8. LEGAL RESERVE RATIO (LRR)

It is that fraction of deposits with the commercial banks which is legally compulsory for the banks to keep in the form of cash and liquid assets as reserves.

9. STATUTORY LIQUIDITY RATIO (SLR)

The fraction of deposits which banks are required to keep in the form of liquid assets, including cash within the bank itself.

10. CASH RESERVE RATIO (CRR)

The fraction of deposits the banks are required to keep with the Central Bank.

11. COMMERCIAL BANK

It is a financial institution which accepts deposits from the public and gives loans for purposes of consumption and investment.

12. MONEY CREATION/DEPOSIT CREATION/CREDIT CREATION BY COMMERCIAL BANKS

Let us understand this process with the help of an example:

Suppose, there is an initial deposit of ₹1,000 and legal reserve ratio (LRR) is 20%, i.e., the bank has to keep ₹200 and lend the rest ₹800. It is assumed that all the transactions are routed through banks. The borrower withdraws his ₹800 for making payments which are routed through banks in the form of deposit accounts.

The bank receives ₹800 as deposit and keeps 20% of it, i.e., ₹160 as reserve and lends ₹640. Again the borrower uses this for payment which flows back into the banks thereby increasing the flow of deposits.

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Round	Deposits(₹)	Loan (₹)	LRR(20%)
Initial deposit	1,000	800	200
Further deposit	800	640	160

Further deposit	640	152	128
:	:	:	:
Total	5,000	4,000	1,000

$$\text{Money Multiplier} = \frac{1}{\text{LRR}} - \frac{1}{20\%} = 5$$

Total Demand Deposits

$$= \text{Money Multiplier} \times \text{Cash Reserves}$$

$$= 5 \times 1,000 = ₹5,000$$

13. CENTRAL BANK

It is an apex body that controls, operates, regulates and directs the entire banking and monetary structure of the country.

13.1 Currency Authority or Bank of Issue

It has the sole authority to issue currency in the country. The advantages of this function are:

- It gives uniformity in issue of currency and note circulation.
- It gives power to central bank to control money supply.
- It stabilises the internal and external value of currency.

13.2 Banker to the Government

As a banker it carries out all banking business of the government and maintains current account for keeping cash balances of the government. It accepts receipts and makes payments and also gives loans and advances to the government. It manages the public debt and also acts as the financial advisor to the government.

13.3 Banker's Bank and Supervisor

It acts as a banker to other banks in the country and performs the following functions:

- Custodian of cash reserves** : Commercial banks must keep a proportion of their net total deposits with the central bank as cash reserves.
- Lender of last resort** : When commercial banks face financial crisis, they approach to the central bank which gives them loans and advances.
- Clearing house function** : Since the central bank holds the cash reserves of commercial banks, it also acts as the clearing house for these banks.
- Supervisor** : The central bank supervises the

functioning of commercial banks. It makes rules regarding licensing, management, branch expansion, liquidation etc.

13.4 Custodian of Foreign Exchange Reserves

It acts as a custodian of country's stocks of gold and foreign exchange reserves and thus helps in stabilizing the external value of money.

13.5 Controller of Money Supply and Credit

During economic fluctuations, the Central Bank influences money supply and credit in the economy by controlling the lending power of the commercial banks. This, it does through qualitative and quantitative instruments. The former refers to direction of credit whereas the latter refers to the volume of credit.

14. QUANTITATIVE INSTRUMENTS

Quantitative instruments are tools used by the central bank to control the overall supply of money and credit in the economy. These measures focus on maintaining price stability and influencing aggregate demand during different phases of the economic cycle.

14.1 Bank Rate Policy

It refers to the rate at which the central bank lends money to commercial banks as a lender of the last resort. During inflation (excess demand) the central bank increases the bank rate and reduces the same in times of deflation (deficient demand).

14.2 Repo Rate

It may be defined as the rate at which the central bank lends money to the commercial banks in the event of any shortfall of funds in the short-run. Increase in repo rate discourages commercial banks to borrow from central bank and thus reduces money supply in the economy whereas decrease in repo rate encourages borrowings by commercial banks and thus increases money supply in the economy.

14.3 Reverse Repo Rate

It is the rate at which the central bank of a country borrows money from commercial banks. Increase in repo rate encourages commercial banks to deposit funds with the central bank reducing availability of funds with it. This, thus helps in curtailing money supply in the economy and vice-versa.

14.4 Open Market Operations

It refers to the buying and selling of securities by the central bank from/to the public and commercial banks. It sells government securities during excess demand and buys securities during deficient demand.

14.5 Legal Reserve Ratio (LRR)

Central bank can influence the credit creation power of commercial banks by making changes in CRR and SLR.

1. **Cash Reserve Ratio (CRR)** : It refers to the minimum percentage of net demand and time deposits which commercial banks are required to keep with the central bank. During inflation, when money supply has to be reduced, central bank increases CRR and decreases it during deflation or deficient demand.
2. **Statutory Liquidity Ratio (SLR)** : It refers to the minimum percentage of net demand and time deposits which the commercial banks are required to keep with itself in the form of cash reserves. By changing the SLR, the amount of credit and hence money supply can be greatly affected. It increased during excess demand and vice-versa.

15. QUALITATIVE INSTRUMENTS

Qualitative instruments are tools used by the central bank to regulate credit flow and influence the allocation of resources in the economy. These measures are designed to address specific sectors or purposes rather than the overall money supply.

15.1 Margin Requirements

It is the difference between the amount of loan and market value of the security offered by the borrower against the loan. Margin requirements are increased during inflation and decreased during deflation.

15.2 Selective Credit Controls

Central bank gives directions to other banks to give or not to give credit for certain purposes to particular sectors.

15.3 Moral Suasion

It is a combination of persuasion and pressure that central bank applies on other banks in order to get them to act in accordance with its policies.

MULTIPLE CHOICE QUESTION

1. Which of the following represents a primary function of money, essential for its role in facilitating trade and providing a common measure of value for goods and services in an economy?
- Medium of exchange and store of value
 - Standard of deferred payments and unit of account
 - Medium of exchange and unit of account
 - Store of value and standard of deferred payments

Ans :

SQP 2024

(c) Medium of exchange and unit of account
The primary functions of money include acting as a medium of exchange to facilitate the buying and selling of goods and services and serving as a unit of account to provide a standard measure for quoting their value.

2. In the context of the total money available within an economy, which of the following best defines the term “money supply,” considering the public’s holdings at a given point in time?
- Total volume of currency and deposits held by the central bank
 - Total volume of money held by the public at a particular point in time
 - Total deposits in commercial banks only
 - Currency in circulation within banks only

Ans :

COMP 2006

(b) Total volume of money held by the public at a particular point in time

Money supply refers to the aggregate amount of currency held by the public, demand deposits, and other deposits with the RBI, indicating the liquidity available in the economy at a specific time.

3. What is the Cash Reserve Ratio (CRR), and how does it influence the banking system’s capacity to extend loans and create credit in the economy?
- The fraction of deposits banks keep with themselves
 - The fraction of deposits banks keep with the central bank
 - The percentage of deposits invested in government securities
 - The percentage of deposits available for loans

Ans :

DELHI 2007

- (b) The fraction of deposits banks keep with the central bank

CRR is the mandatory proportion of total deposits that commercial banks must maintain with the central bank, impacting their ability to lend and create money by restricting or freeing up funds.

4. How does the central bank use the repo rate as a monetary policy tool to influence borrowing costs for commercial banks and regulate the money supply in the economy during inflationary periods?
- By reducing the money supply during deflation
 - By encouraging borrowing to reduce money supply
 - By increasing borrowing costs to reduce money supply
 - By eliminating inflation directly

Ans :

OD 2008

(c) By increasing borrowing costs to reduce money supply

The central bank raises the repo rate to make borrowing more expensive for commercial banks, discouraging loans and reducing the overall money supply to curb inflation.

5. How do qualitative instruments of monetary policy, such as margin requirements and moral suasion, differ from quantitative instruments like CRR and SLR in addressing credit allocation and money supply?
- Quantitative instruments target inflation; qualitative instruments target GDP.
 - Qualitative instruments regulate credit flow to specific sectors, while quantitative instruments influence overall credit supply.
 - Quantitative instruments focus on subsidies; qualitative instruments focus on taxes.
 - Qualitative instruments are used only during inflation.

Ans :

SQP 2013

(b) Qualitative instruments regulate credit flow to specific sectors, while quantitative instruments influence overall credit supply.

Qualitative instruments, such as margin requirements and selective credit controls, address specific sectoral credit needs, while quantitative tools, including CRR and repo rate, affect the overall money supply and economic demand.

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6. What is the primary objective of Open Market Operations conducted by the central bank, and how does it impact the overall credit availability and economic stability?

- (a) To increase government revenue through taxation
- (b) To manage the supply of credit in the economy
- (c) To influence the allocation of credit to specific sectors
- (d) To reduce inflation by controlling imports

Ans :

FOREIGN 2010

(b) To manage the supply of credit in the economy Through Open Market Operations, the central bank buys or sells government securities to regulate the availability of credit, ensuring economic stability by controlling inflation or deflation.

7. Which of the following best describes the concept of “money supply,” highlighting its significance in representing the total liquidity available to the public at a specific point in time within an economy?

- (a) The volume of currency held exclusively by the central bank
- (b) Total money held by the public, including demand deposits and currency
- (c) Deposits with banks that can be accessed through loans
- (d) The amount of cash reserves kept by commercial banks with the central bank

Ans :

COMP 2016

- (b) Total money held by the public, including demand deposits and currency

Money supply includes the total currency held by the public, demand deposits, and other deposits, reflecting the overall liquidity in the economy.

8. Which of the following is an example of a qualitative instrument of monetary policy aimed at regulating credit allocation to specific sectors of the economy?

- (a) Open Market Operations
- (b) Repo Rate Adjustments
- (c) Margin Requirements
- (d) Cash Reserve Ratio

Ans :

FOREIGN 2001

- (c) Margin Requirements

Margin requirements are qualitative tools used by the central bank to influence credit allocation by setting the difference between the loan amount and the value of securities offered by borrowers.

9. How does the Cash Reserve Ratio (CRR) serve as a tool for monetary policy, and what impact does its alteration have on the commercial banks' lending capacity?

- (a) CRR helps the government increase taxes on banking institutions.
- (b) CRR determines the liquidity banks must hold with themselves for emergencies.
- (c) CRR is the proportion of deposits banks keep with the central bank, impacting lending.
- (d) CRR limits the percentage of profits banks can retain for reinvestment.

Ans :

DELHI 2021

- (c) CRR is the proportion of deposits banks keep with the central bank, impacting lending.

By adjusting the CRR, the central bank can increase or decrease the funds available for commercial banks to lend, influencing credit creation and money supply.

10. What role does the repo rate play in regulating inflation, and how does an increase in this rate affect the borrowing behavior of commercial banks?

- (a) It increases borrowing costs, discouraging loans and reducing money supply.
- (b) It decreases borrowing costs, encouraging banks to lend more.
- (c) It has no direct impact on inflation but regulates international trade.
- (d) It directly impacts public borrowing from the government.

Ans :

OD 2023

- (a) It increases borrowing costs, discouraging loans and reducing money supply.

An increase in the repo rate makes borrowing from the central bank more expensive, reducing the money supply and helping control inflation.

11. In what way does Open Market Operations (OMO) contribute to the central bank's efforts in stabilizing the economy, particularly during inflationary pressures?

- (a) By increasing direct taxes on commercial banks
- (b) By buying government securities to inject money into the economy
- (c) By selling government securities to reduce money supply
- (d) By lowering interest rates for long-term borrowing

Ans :

SQP 2009

- (c) By selling government securities to reduce money supply

During inflation, the central bank sells government securities to absorb excess money from the economy, reducing demand and controlling price levels.

- 12.** What is the significance of Statutory Liquidity Ratio (SLR), and how does it help regulate the credit creation power of commercial banks?

- (a) It ensures all deposits are converted into liquid assets for immediate withdrawal.
 (b) It mandates banks to keep a percentage of deposits in cash or approved securities.
 (c) It determines the maximum interest rate banks can offer on loans.
 (d) It restricts banks from lending beyond a fixed percentage of their total deposits.

Ans :

COMP 2011

- (b) It mandates banks to keep a percentage of deposits in cash or approved securities.

SLR requires banks to maintain a fraction of their deposits in liquid assets like cash or approved securities, controlling their lending power and influencing money supply.

- 13.** Why is the Legal Reserve Ratio (LRR) critical for the central bank's ability to influence the overall credit availability in the economy?

- (a) It ensures commercial banks meet their loan obligations to the government.
 (b) It regulates the minimum reserves banks must hold to create credit.
 (c) It directs commercial banks to invest a portion of deposits in foreign reserves.
 (d) It limits banks' ability to invest in long-term securities.

Ans :

DELHI 2012

- (b) It regulates the minimum reserves banks must hold to create credit.

LRR, including CRR and SLR, determines the proportion of deposits commercial banks must maintain, thereby controlling their ability to extend loans and influence credit supply.

- 14.** How do legal tender money and fiat money differ, and what characteristic makes fiat money an essential part of the modern monetary system?

- (a) Fiat money derives value from the government's declaration of its acceptance.
 (b) Legal tender money is used only for international transactions.

- (c) Fiat money is backed by gold reserves held by the central bank.

- (d) Legal tender money is freely exchangeable for foreign currency.

Ans :

FOREIGN 2000

- (a) Fiat money derives value from the government's declaration of its acceptance.

Fiat money has value because the government mandates its acceptance for debts, making it a critical element of the modern economy despite lacking intrinsic value.

- 15.** What is the primary purpose of the central bank acting as the "lender of last resort" for commercial banks?

- (a) To ensure the government's financial stability during fiscal crises
 (b) To provide short-term liquidity support to commercial banks in distress
 (c) To guarantee repayment of loans to international investors
 (d) To facilitate long-term investments in infrastructure

Ans :

SQP 2003

- (b) To provide short-term liquidity support to commercial banks in distress

The central bank acts as the lender of last resort by providing financial assistance to commercial banks facing liquidity crises, ensuring the stability of the banking system.

- 16.** Which statement best defines high-powered money and its role in the monetary system?

- (a) It includes the total deposits with commercial banks used for lending.
 (b) It refers to currency held by the public and reserves with commercial banks.
 (c) It is the value of government securities issued by the central bank.
 (d) It denotes the total money supply in the economy during a financial year.

Ans :

OD 2004

- (b) It refers to currency held by the public and reserves with commercial banks.

High-powered money comprises currency held by the public and cash reserves of banks, forming the base for the creation of credit in the economy.

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17. The rate at which Commercial Banks borrow from Central Bank is called _____.

(a) Bank rate
(b) Legal reserve ratio
(c) Reverse repo rate
(d) Cash reserve ratio

Ans :

COMP 2015

(a) Bank rate

18. _____ is the main source of money supply in an economy.

(a) Central Bank
(b) Commercial Banks
(c) Government
(d) Both (a) and (b)

Ans :

FOREIGN 2020

(d) Both (a) and (b)

19. Measuring the value of goods and services refers to which of the following functions of money?

(a) Store of value
(b) Unit of value
(c) Standard of deferred payments
(d) Medium of exchange

Ans :

SQP 2015

(b) Unit of value

20. Which of the following functions of money simplifies the process of borrowing and lending?

(a) Store of value
(b) Medium of exchange
(c) Standard of deferred payments
(d) Unit of value

Ans :

COMP 2018

(c) Standard of deferred payments

21. Which of the following is not included in money supply?

(a) Currency held by public
(b) Inter-bank-deposits
(c) Demand deposits in Banks
(d) Saving deposits with post office banks.

Ans :

MAIN 2019

(b) Inter-bank-deposits

22. M_1 of money supply does not include.

(a) Currency held by public
(b) Other deposits in RBI
(c) Demand deposits with the Commercial Banks
(d) Net time deposits with banks

Ans :

SQP 2022

(d) Net time deposits with banks

23. The short term borrowing rate at which Reserve Bank of India borrows money from Commercial Banks is called _____.

(a) Bank rate
(b) Discount rate
(c) Repo rate
(d) Reverse repo rate

Ans :

DELHI 2014

(d) Reverse repo rate

24. What would be the total money creation in the economy, If initial fresh deposits with banks = ₹50,000 and LRR = 20%

(a) ₹2,50,000
(b) ₹5,00,000
(c) ₹10,00,000
(d) ₹12,00,000

Ans :

OD 2017

(a) ₹2,50,000

25. Which Bank is authorised to issue currency?

(a) Central Bank
(b) Commercial Bank
(c) Cooperative Bank
(d) Scheduled Bank

Ans :

COMP 2002

(a) Central Bank

26. Which one of the following is a qualitative measure of credit control by the Central Bank?

(a) Bank rate
(b) Open market operations
(c) Marginal requirements
(d) Cash reserve ratio

Ans :

MAIN 2006

(c) Marginal requirements

27. _____ refers to the proportion of total deposits which Banks are required to keep in the form of reserves with themselves.

(a) Cash deposit ratio
(b) Statutory liquidity ratio
(c) Bank rate
(d) Reserve deposit ratio

Ans :

SQP 2007

(d) Reserve deposit ratio

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28. Which one of the following is a quantitative tool of credit control used by RBI?

- (a) Bank rate policy
- (b) Marginal requirements
- (c) Moral suasion
- (d) Direct action

Ans :

COMP 2008

- (a) Bank rate policy

29. The ratio of total deposits that a commercial Banks has to keep with Reserve Bank of India is called

- (a) Deposit ratio
- (b) Cash reserve ratio
- (c) Legal reserve ratio
- (d) Statutory liquidity ratio

Ans :

MAIN 2010

- (b) Cash reserve ratio

30. Which of the following is not a problem of barter system of exchange?

- (a) store of value
- (b) double coincidence of wants
- (c) unit of account
- (d) Unemployment

Ans :

SQP 2013

- (d) Unemployment

31. Money supply includes _____.

- (a) all deposits in banks
- (b) only demand deposits in banks
- (c) only time deposits in banks
- (d) currency with the banks

Ans :

COMP 2016

- (b) only demand deposits in banks

32. Demand deposits include _____.

- (a) Saving account deposits and fixed deposits
- (b) Saving account deposits and current account deposits
- (c) Current account deposits and fixed deposits
- (d) All types of deposits

Ans :

MAIN 2021

- (b) Saving account deposits and current account deposits

33. Which of the following is not a function of money?

- (a) Medium of exchange
- (b) Price stability
- (c) Store of value
- (d) Unit of account

Ans :

SQP 2023

- (b) Price stability

34. Who regulates money supply?

- (a) Government of India
- (b) Reserve Bank of India
- (c) Commercial Banks
- (d) Planning Commission

Ans :

COMP 2001

- (b) Reserve Bank of India

35. _____ is not related with banking system.

- (a) Bank rate
- (b) Fiscal deficit
- (c) Credit creation
- (d) Cash Reserve Ratio

Ans :

DELHI 2021

- (b) Fiscal deficit

36. Central Bank as _____ manages public debt of the government.

- (a) Custodian of Foreign Exchange
- (b) Agent
- (c) Financial Advisor
- (d) Supervisor

Ans :

OD 2021

- (b) Agent

37. Statutory Liquidity Ratio implies to that percentage of _____.

- (a) total deposits of the commercial banks which must be kept in the current account, with the Reserve Bank of India.
- (b) total deposits of the commercial banks which must be kept in the form of liquid assets, with the Reserve Bank of India.
- (c) net time and demand deposit liabilities of the commercial banks which must be kept in the form of cash, with the Reserve Bank of India.
- (d) net time and demand deposit liabilities of the commercial banks which must be kept with themselves in the form of liquid assets.

Ans :

SQP 2009

- (d) net time and demand deposit liabilities of the commercial banks which must be kept with themselves in the form of liquid assets.

38. If the Legal Reserve Ratio is 20% and Initial deposit is ₹2,000, then value of money multiplier and total money creation will be _____ and _____.

- (a) 5 and ₹10,000
- (b) 4 and ₹8,000
- (c) 6 and ₹2,000
- (d) 4 and ₹10,000

Ans :

COMP 2011

- (a) 5 and ₹10,000

$$\text{Money Multiplier} = \frac{1}{LRR} = \frac{1}{20\%} = \frac{100}{20} = 5$$

and Total Money Creation

$$= \text{Initial Deposit} \times \text{MM} = ₹2,000 \times 5 = ₹10,000$$

39. Process of credit creation by commercial banks comes to an end when _____.
 (a) Fresh deposits with Banks become zero.
 (b) Reserve Ratio becomes zero.
 (c) Money multiplier becomes zero.
 (d) Total money reserves become equal to initial deposit.

Ans :

FOREIGN 2021

- (d) Total money reserves become equal to initial deposit.

40. Which of the following statements does not support with the function of RBI as supervisor to the commercial banks?
 (a) Regulates the expansion, merger, acquisition etc. of the banks.
 (b) Formulates all rules and regulations for commercial banks.
 (c) Extend loans to the commercial bank.
 (d) Inspection of operations of banks.

Ans :

DELHI 2021

- (a) Regulates the expansion, merger, acquisition etc. of the banks.

41. Credit creation by commercial banks is determined by:
 (a) Cash Reserve Ratio (CRR)
 (b) Statutory Liquidity Ratio (SLR)
 (c) Initial Deposits
 (d) All the above

Ans :

DELHI 2018

- (d) All the above

42. Which of the following is not the function of the central bank?
 (a) Banking facilities to government
 (b) Banking facilities to public
 (c) Lendings to government
 (d) Lendings to commercial banks

Ans :

OD 2019

- (b) Banking facilities to public

43. Read the following dialogue between two people:

Sita: I want 1 kg of potatoes.

Rani: What will you give in exchange?

Sita: I can give you 2 liters of milk in return for the potatoes.

Rani: I don't need milk. I want a pair of shoes.

Which of the following problem is being faced by Sita and Rani in their exchange process?

- (a) Lack of double coincidence of wants
- (b) Absence of common units of value
- (c) Lack of store of value
- (d) Lack of standard of deferred payment

Ans :

FOREIGN 2019

- (a) Lack of double coincidence of wants

44. The main aim of monetary policy is _____.
 (a) to bring price stability in the economy
 (b) employment generation in the country
 (c) to increase trade surplus
 (d) to generate greater tax revenue

Ans :

SQP 2020

- (a) to bring price stability in the economy

45. To reduce credit availability in the economy, the Central Bank may _____.
 (a) buy securities in the open market
 (b) sell securities in the open market.
 (c) reduce reserve ratio.
 (d) reduce repo rate.

Ans :

COMP 2020

- (b) sell securities in the open market.

46. Ms. Iqra Ansari, a teacher, was explaining in her class about various types of deposits with the commercial banks. She quoted that –
 “These deposits form a part of M1 measure of money supply and are payable on demand by the commercial banks.”

Identify the type of deposits she was explaining about and choose the correct alternative:

- (i) Demand Deposits
- (ii) Time Deposits
- (iii) Post Office Deposits

Alternatives:

- (a) Only (i)
- (b) Only (ii)
- (c) (i) and (ii)
- (d) (i), (ii) and (iii)

Ans :

DELHI 2023

- (a) Only (i)

47. In the Indian economy, _____ are issued by the Reserve Bank of India and acts as legal tender money.

- (i) Coins of all denomination
- (ii) Currency notes of various denominations, except one rupee note
- (iii) Demand deposits
- (a) Only (i)
- (b) Only (ii)
- (c) Only (iii)
- (d) (i) and (ii)

Ans :

OD 2023

- (b) Only (ii)

48. _____ formulates the Monetary Policy in the economy.

- (a) Commercial Banks
- (b) International Monetary Fund
- (c) Central Bank
- (d) Central Government

Ans :

FOREIGN 2023

- (c) Central Bank

49. 'Money is an asset which can be stored for use in future.'

In the light of given statement, identify the function of money.

- (a) A measure of value
- (b) A standard of deferred payment
- (c) A store of value
- (d) A medium of Exchange

Ans :

SQP 2023

- (c) A store of value

50. "Mr. Sahotra borrowed funds from bank for purchasing a new house".

From the above statement, identify the indicated function of money:

- (a) Medium of exchange
- (b) Store of value
- (c) Unit of account
- (d) Standard of deferred payments

Ans :

COMP 2012

- (d) Standard of deferred payments

51. The Central Bank can reduce the Money Supply in the economy by _____ the _____.

- (a) increasing, bank rate
- (b) decreasing, cash reserve ratio
- (c) decreasing, bank rate
- (d) buying, government securities

Ans :

DELHI 2020

- (a) increasing, bank rate

52. Under the _____ Exchange Rate System, the Central Bank can control the rise/fall of foreign exchange rate in a range bound manners.

- (a) fixed
- (b) flexible
- (c) managed floating
- (d) gold standard

Ans :

OD 2017

- (c) managed floating

53. If in an economy the initial deposits are ₹4,000 crore and Reserve Ratio (RR) is 10%. The value of total deposit created would be ₹ _____ crore.

- (a) 4,000
- (b) 40,000
- (c) 2,000
- (d) 20,000

Ans :

FOREIGN 2008

- (b) 40,000

ASSERTION AND REASON

54. **Assertion :** Supply of money is a flow variable.

Reason : It is measured at a point of time.

- (a) Both Assertion and Reason are true and Reason is the correct explanation of Assertion.
- (b) Both Assertion and Reason are true and Reason is not the correct explanation of Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

SQP 2016

- (d) Assertion is false but Reason is true.

55. **Assertion :** Demand deposits are also called bank money.

Reason : Demand deposits are created by commercial banks.

- (a) Both Assertion and Reason are true and Reason is the correct explanation of Assertion.
- (b) Both Assertion and Reason are true and Reason is not the correct explanation of Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

DELHI 2023

(a) Both Assertion and Reason are true and Reason is the correct explanation of Assertion.

56. Assertion : Coins are limited legal tender money.

Reason : Coins represent money which is accepted by the people to an unlimited extent.

- (a) Both Assertion and Reason are true and Reason is the correct explanation of Assertion.
- (b) Both Assertion and Reason are true and Reason is not the correct explanation of Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

COMP 2021

(c) Assertion is true but Reason is false

57. Assertion : LRR represents the minimum reserve ratio essential to be maintained by banks.

Reason : Banks create deposits in the process of making loans to their customers.

- (a) Both Assertion and Reason are true and Reason is the correct explanation of Assertion.
- (b) Both Assertion and Reason are true and Reason is not the correct explanation of Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

OD 2001

(b) Both Assertion and Reason are true and Reason is not the correct explanation of Assertion.

58. Assertion : Bank rate is decreased when credit is to be expanded.

Reason : Selective credit control involves specifying the amount and purpose for which credit is to be given.

- (a) Both Assertion and Reason are true and Reason is the correct explanation of Assertion.
- (b) Both Assertion and Reason are true and Reason is not the correct explanation of Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

SQP 2011

(b) Both Assertion and Reason are true and Reason is not the correct explanation of Assertion.

59. Assertion : Open market operations are used to influence money supply in the economy.

Reason : Central bank sells government securities to increase the flow of credit in the economy.

- (a) Both Assertion and Reason are true and Reason is the correct explanation of Assertion.
- (b) Both Assertion and Reason are true and Reason is not the correct explanation of Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

FOREIGN 2009

(c) Assertion is true but Reason is false.

60. Assertion : The Central Bank is also known as the bank of issue.

Reason : The Central Bank enjoys the sole monopoly of issuing currency to ensure control over volume of currency and money supply.

- (a) Both Assertion and Reason are true and Reason is the correct explanation of Assertion.
- (b) Both Assertion and Reason are true and Reason is not the correct explanation of Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

COMP 2012

(a) Both Assertion and Reason are true and Reason is the correct explanation of Assertion.

61. Assertion : Demand deposits are created by commercial banks.

Reason : Demand deposits form a significant part of the total money supply in the economy.

- (a) Both Assertion and Reason are true and Reason is the correct explanation of Assertion.
- (b) Both Assertion and Reason are true and Reason is not the correct explanation of Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

DELHI 2004

(b) Both Assertion and Reason are true and Reason is not the correct explanation of Assertion.

62. Assertion : Credit creation is inversely related to the Legal Reserve Ratio.

Reason : LRR is fixed by the market forces of demand and supply.

- (a) Both Assertion and Reason are true and Reason is the correct explanation of Assertion.
- (b) Both Assertion and Reason are true and Reason is not the correct explanation of Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

FOREIGN 2003

(c) Assertion is true but Reason is false.

- 63. Assertion :** Only net demand deposits held by commercial banks are taken as part of money supply.

Reason : Only deposits of the public held by the banks are included in money supply.

- (a) Both Assertion and Reason are true and Reason is the correct explanation of Assertion.
 (b) Both Assertion and Reason are true and Reason is not the correct explanation of Assertion.
 (c) Assertion is true but Reason is false.
 (d) Assertion is false but Reason is true.

Ans :

OD 2000

(a) Both Assertion and Reason are true and Reason is the correct explanation of Assertion.

- 64. Assertion :** Reserve Ratio and Credit creation power of commercial bank are directly related.

Reason : Credit Creation is the product of the reciprocal of Reserve Ratio (RR) and Primary deposit.

- (a) Both Assertion and Reason are true and Reason is the correct explanation of Assertion.
 (b) Both Assertion and Reason are true and Reason is not the correct explanation of Assertion.
 (c) Assertion is true but Reason is false.
 (d) Assertion is false but Reason is true.

Ans :

OD 2021

(d) Assertion is false but Reason is true.

STATEMENT BASED QUESTIONS

- 65. Statement 1:** All the coins are issued by Finance Ministry in India.

Statement 2: All the currency notes are issued by Reserve Bank of India.

- (a) Statement 1 is true & Statement 2 is false.
 (b) Statement 1 is false & Statement 2 is true.
 (c) Both statements 1 & 2 are true.
 (d) Both statements 1 & 2 are false.

Ans :

SQP 2005

(a) Statement 1 is true & Statement 2 is false.

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- 66.** Which of the following statements about Repo Rate is correct?

- I. It is the rate at which the central bank lends money to commercial banks for short-term needs.
 II. An increase in repo rate discourages borrowing by commercial banks.
 III. A decrease in repo rate reduces the money supply in the economy.
 IV. Repo rate is used to manage liquidity and inflation in the economy.
 (a) Only I, II, and IV are correct.
 (b) Only II and III are correct.
 (c) All statements are correct.
 (d) Only I and IV are correct.

Ans :

OD 2004

(a) Only I, II, and IV are correct.
 Repo rate impacts borrowing and liquidity. An increase discourages borrowing, while a decrease increases money supply. Statement III is incorrect as a decrease in repo rate increases money supply.

Identify the correct statements about the functions of money.

- I. Money acts as a medium of exchange, solving the problem of double coincidence of wants.
 II. Money serves as a unit of account, providing a common measure of value.
 III. Money cannot act as a store of value over time due to inflation.
 IV. Money facilitates deferred payments, enabling borrowing and lending activities.
 (a) Only II and III are correct.
 (b) Only I, II, and IV are correct.
 (c) All statements are correct.
 (d) Only I and IV are correct.

Ans :

FOREIGN 2000

(b) Only I, II, and IV are correct.
 Money acts as a medium of exchange, unit of account, and store of value. It also facilitates deferred payments. Statement III is incorrect as money can store value despite inflation to an extent.

- 68.** Which of the following statements about Open Market Operations (OMO) is correct?

- I. OMO refers to the buying and selling of government securities by the central bank.
 II. Selling securities reduces money supply in the economy during inflation.
 III. Buying securities increases money supply in the economy during deflation.

IV. OMO is only used for long-term economic adjustments.

- (a) Only I, II, and III are correct.
- (b) Only II and IV are correct.
- (c) All statements are correct.
- (d) Only I and IV are correct.

Ans :

SQP 2003

- (a) Only I, II, and III are correct.

OMO involves the buying and selling of government securities to regulate money supply. It is used for short- and medium-term adjustments. Statement IV is incorrect.

69. Which of the following statements about Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) is correct?

- I. CRR is the fraction of deposits that commercial banks must keep with the central bank.
 - II. SLR is the fraction of deposits that banks are required to maintain in the form of liquid assets.
 - III. Both CRR and SLR are used to influence credit creation by commercial banks.
 - IV. CRR reduces money supply directly, while SLR impacts money supply indirectly.
- (a) Only I and II are correct.
 - (b) Only II, III, and IV are correct.
 - (c) All statements are correct.
 - (d) Only III and IV are correct.

Ans :

DELHI 2012

- (c) All statements are correct.

CRR is maintained with the central bank, and SLR is maintained in liquid assets by commercial banks. Both tools regulate credit creation and money supply, with CRR having a direct effect and SLR an indirect one.

70. Which of the following statements about Legal Reserve Ratio (LRR) is correct?

- I. LRR includes both CRR and SLR.
 - II. CRR is kept with the central bank, while SLR is maintained by the bank itself.
 - III. Increasing CRR and SLR reduces the credit creation ability of commercial banks.
 - IV. LRR is a qualitative measure to control credit.
- (a) Only II and IV are correct.
 - (b) All statements are correct.
 - (c) Only I, II, and III are correct.
 - (d) Only I and III are correct.

Ans :

COMP 2005

- (c) Only I, II, and III are correct.

LRR includes CRR and SLR, which are tools to regulate credit creation. CRR is maintained with the central bank, and SLR with the bank itself. LRR is a quantitative measure, not qualitative, making IV incorrect.

71. Which of the following statements about Central Bank functions is correct?

- I. The central bank is the sole authority to issue currency in the country.
 - II. It acts as a banker to the government by managing its accounts and loans.
 - III. The central bank directly provides loans to the public for investments.
- (a) Only I and II are correct.
 - (b) Only II and III are correct.
 - (c) All statements are correct.
 - (d) Only I and III are correct.

Ans :

DELHI 2014

- (a) Only I and II are correct.

The central bank issues currency and acts as a banker to the government. It does not directly provide loans to the public, which is done by commercial banks.

72. Which of the following statements about Money Supply is correct?

- I. Money supply refers to the total volume of money held by the public at a particular point of time.
 - II. It includes currency with the public, demand deposits, and other deposits with the RBI.
 - III. Money supply measures the flow of money over a period of time.
- (a) Only I and II are correct.
 - (b) Only II and III are correct.
 - (c) All statements are correct.
 - (d) Only I and III are correct.

Ans :

OD 2017

- (a) Only I and II are correct.

Money supply is a stock variable, measured at a specific time. It includes currency with the public and deposits but does not measure the flow of money over time.

73. Which of the following statements about Repo Rate is correct?

- I. Repo rate is the rate at which the central bank lends money to commercial banks.
- II. A higher repo rate discourages borrowing by commercial banks.

III. A lower repo rate reduces liquidity in the economy.

- (a) Only II and III are correct.
- (b) All statements are correct.
- (c) Only I and III are correct.
- (d) Only I and II are correct.

Ans :

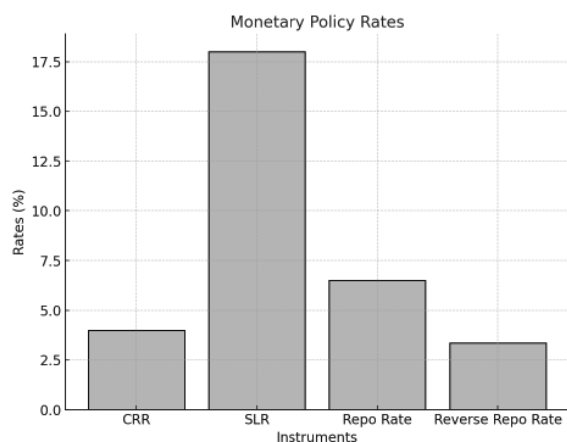
FOREIGN 2020

(d) Only I and II are correct.

Repo rate impacts borrowing by commercial banks. A higher rate discourages borrowing, reducing liquidity. A lower repo rate increases liquidity, making statement III incorrect.

GRAPH BASED QUESTIONS

74. The bar graph below shows the rates of various monetary policy instruments used by the central bank. Based on the graph, which of the following statements is correct?



- (a) The Cash Reserve Ratio (CRR) rate is higher than the Reverse Repo Rate.
- (b) The Repo Rate is the highest among all instruments.
- (c) The Statutory Liquidity Ratio (SLR) has the lowest rate.
- (d) The Reverse Repo Rate is higher than the Repo Rate.

Ans :

SQL 2024

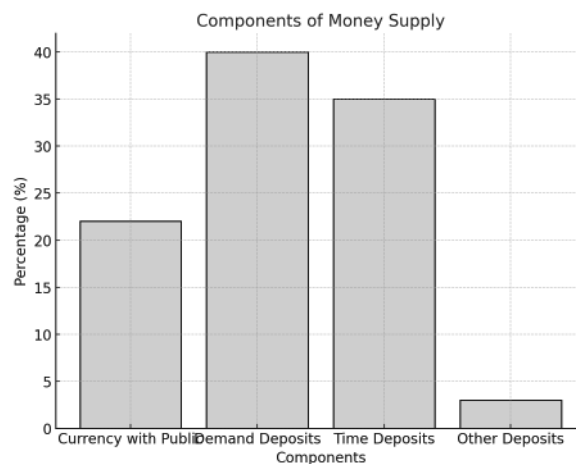
- (a) The Cash Reserve Ratio (CRR) rate is higher than the Reverse Repo Rate.

From the graph: CRR is 4.0%, which is higher than the Reverse Repo Rate at 3.35%.

The SLR is the highest at 18.0%, making option (b) incorrect.

The Reverse Repo Rate is not higher than the Repo Rate, making option (d) incorrect.

75. The bar graph above illustrates the percentage distribution of various components of the money supply. Which of the following statements is correct?



- (a) Demand Deposits constitute the largest share of the money supply.
- (b) Time Deposits have a smaller share than Currency with Public.
- (c) Other Deposits have the highest percentage in the money supply.
- (d) Currency with Public constitutes the smallest share of the money supply.

Ans :

COMP 2007

- (a) Demand Deposits constitute the largest share of the money supply.

From the graph:

Demand Deposits have the highest share at 40%, making option (a) correct.

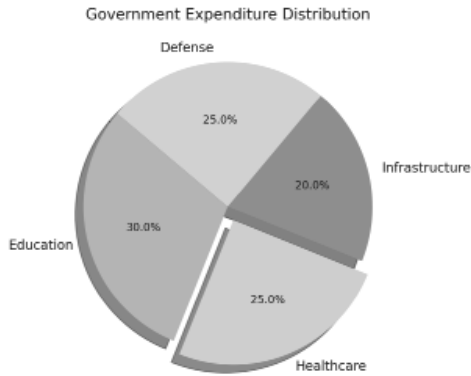
Time Deposits (35%) are higher than Currency with Public (22%), making option (b) incorrect.

Other Deposits (3%) have the smallest share, making option (c) incorrect.

Currency with Public is not the smallest, making option (d) incorrect.

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76. The pie chart above depicts the percentage distribution of government expenditure across various sectors. Based on the chart, which of the following statements is correct?



- Education receives the highest share of government expenditure at 30%.
- Healthcare and Defense receive equal shares of government expenditure.
- Infrastructure receives the smallest share of government expenditure.
- Defense has the largest allocation among all sectors.

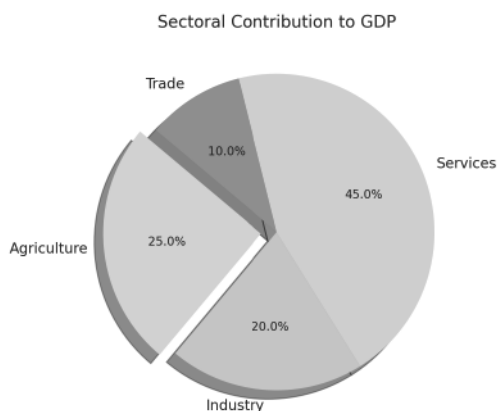
Ans :

FOREIGN 2013

- Education receives the highest share of government expenditure at 30%.

From the pie chart, Education has the largest share at 30%, making option (a) correct. Healthcare and Defense each receive 25%, which are equal but not the largest, making option (b) incorrect. Infrastructure receives 20%, which is the smallest share, making option (c) incorrect. Defense's 25% allocation is not the largest, making option (d) incorrect. Thus, Education has the highest allocation.

7. The pie chart below illustrates the percentage contribution of various sectors to GDP. Based on the chart, which of the following statements is correct?



- Agriculture accounts for the largest share of GDP at 45%.
- Services sector contributes the largest share of GDP at 45%.
- Trade contributes the same percentage as Agriculture.
- Industry is the smallest contributor to GDP.

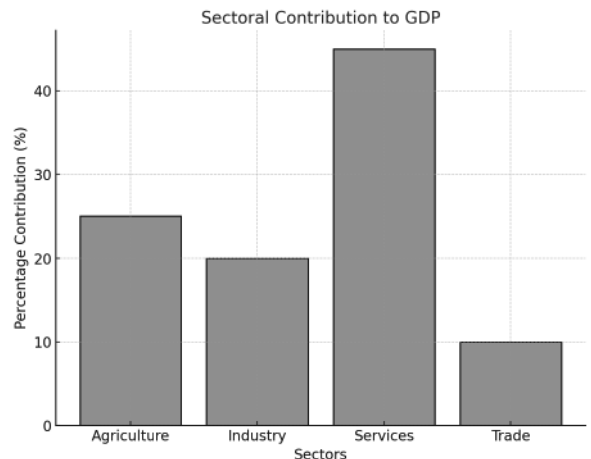
Ans :

OD 2010

- Services sector contributes the largest share of GDP at 45%.

From the pie chart, the Services sector has the highest contribution of 45% to GDP, making option (b) correct. Agriculture contributes 25%, not 45%, so option (a) is incorrect. Trade contributes 10%, which is significantly less than Agriculture's 25%, making option (c) incorrect. Industry contributes 20%, which is higher than Trade's 10%, so option (d) is incorrect. Thus, the Services sector is the largest contributor to GDP.

The bar graph below shows the percentage contribution of various sectors to GDP. Which of the following statements is correct?



- The Agriculture sector contributes the highest percentage to GDP.
- The Services sector accounts for the largest share in GDP.
- The Industry sector contributes more than the Services sector.
- Trade contributes more than Agriculture.

Ans :

DELHI 2008

- The Services sector accounts for the largest share in GDP.

The Services sector has the highest contribution to GDP at 45%, making it the largest contributor among all sectors. Agriculture contributes

25%, which is significantly lower than Services, making option (a) incorrect. The Industry sector contributes 20%, which is less than Services, making option (c) incorrect. Lastly, Trade contributes only 10%, which is lower than Agriculture's 25%, making option (d) incorrect. Thus, the correct answer is that the Services sector accounts for the largest share in GDP.

PASSAGE BASED QUESTION

- 79.** Repo rate is the rate at which the central bank lends money to commercial banks for short-term needs. An increase in the repo rate discourages borrowing by commercial banks, reducing liquidity in the economy. Conversely, a decrease in the repo rate encourages borrowing, increasing the money supply.

What happens when the central bank increases the repo rate?

- (a) Borrowing by commercial banks is encouraged.
- (b) Liquidity in the economy increases.
- (c) Borrowing by commercial banks is discouraged.
- (d) Money supply remains unchanged.

Ans : SQP 2015

(c) Borrowing by commercial banks is discouraged. A higher repo rate increases the cost of borrowing for commercial banks, discouraging borrowing and reducing liquidity. The other options do not align with the repo rate's function.

- 80.** Cash Reserve Ratio (CRR) is the percentage of a commercial bank's total deposits that must be kept with the central bank as reserves. During inflation, the central bank increases CRR to reduce money supply, while it decreases CRR during deflation to enhance money supply. What is the purpose of increasing CRR during inflation?

- (a) To enhance credit creation.
- (b) To reduce money supply in the economy.
- (c) To encourage borrowing by commercial banks.
- (d) To stabilize the banking system.

Ans : COMP 2018

(b) To reduce money supply in the economy. Increasing CRR reduces the amount of money available with banks for lending, thereby reducing money supply during inflation. The other options

do not fit the purpose of CRR adjustment.

- 81.** Open Market Operations (OMO) involve the buying and selling of government securities by the central bank to regulate money supply. Selling securities reduces money supply, while buying securities increases liquidity in the economy. How does selling government securities during inflation affect the economy?
- (a) It reduces money supply.
 - (b) It increases money supply.
 - (c) It encourages lending by banks.
 - (d) It stabilizes market prices.

Ans : DELHI 2019

(a) It reduces money supply. Selling securities absorbs liquidity from the market, reducing money supply, which is necessary to control inflation. The other options do not describe the effect of selling securities.

- 82.** Statutory Liquidity Ratio (SLR) is a percentage of a bank's deposits that must be kept in liquid assets like cash, gold, or government-approved securities. It is used to control credit creation by banks.

What is the impact of decreasing SLR during deflation?

- (a) Reduces the lending capacity of banks.
- (b) Increases the lending capacity of banks.
- (c) Stabilizes money supply in the economy.
- (d) Decreases liquidity in the market.

Ans : OD 2022

(b) Increases the lending capacity of banks. A lower SLR leaves more funds with banks, enabling them to lend more, which helps increase money supply during deflation. Other options are incorrect based on SLR's function.

- 83.** Moral suasion is a qualitative monetary policy tool used by the central bank to influence and persuade commercial banks to follow its directives without any strict enforcement.

What is the primary objective of moral suasion by the central bank?

- (a) To enforce penalties on non-compliant banks.
- (b) To persuade banks to align with central bank policies.
- (c) To regulate the interest rates directly.
- (d) To mandate strict credit controls.

Ans : FOREIGN 2002

(b) To persuade banks to align with central bank policies.

Moral suasion relies on persuasion rather than enforcement to encourage banks to follow monetary policies. It does not involve penalties, direct regulation of interest rates, or mandatory controls.

ONE MARK QUESTIONS

84. What is barter?

Ans : COMP 2014

Barter is an exchange system where goods and services are traded directly for other goods and services without using money.

85. Give the meaning of Money.

Ans : DELHI 2017

Money is anything widely accepted as a medium of exchange with general acceptability.

86. Define Money supply.

Ans : OD 2020

Money supply refers to the total stock of money in circulation, including currency held by the public and demand deposits, at a specific time.

87. Two components of money supply are _____ and _____.

Ans : FOREIGN 2015

Two components of money supply are Currency with the public and Demand Deposits.

88. What is included in money supply?

Ans : SQP 2018

Money supply comprises currency (paper notes and coins) and people's bank deposits with commercial banks.

89. What are demand deposits?

Ans : COMP 2019

Demand deposits are bank deposits that can be withdrawn by depositors anytime.

90. What are Time Deposits?

Ans : DELHI 2022

Time deposits are bank deposits that cannot be withdrawn before the stipulated period, typically

exceeding 15 days.

91. Loans offered by commercial banks _____ (increase/decrease) the money supply in the economy.

Ans : OD 2020

Increase

92. If 'legal reserve ratio' is 20%, what will be the value of money multiplier?

Ans : OD 2018

$$\text{Money Multiplier} = \frac{1}{\text{LRR}} = \frac{1}{0.2} = 5$$

$$\dots [\text{Given: LRR} = 20\% = \frac{20}{100} = 0.20]$$

93. What is meant by bank rate?

Ans : FOREIGN 2022

Bank rate is the interest rate at which a country's Central Bank lends money to commercial banks.

94. Define 'Statutory Liquidity Ratio'.

Ans : SQP 2002

SLR is the minimum percentage of net demand and time deposits that commercial banks must hold as cash, designated assets, or securities, as directed by the central bank.

95. What is Reverse Repo rate?

Ans : COMP 2006

It is the interest rate at which the Central Bank accepts deposits from commercial banks.

96. What are open market operations?

Ans : OD 2018

Open market operations involve the Central Bank buying and selling government securities and bonds to regulate the money supply in the economy.

TWO MARK QUESTIONS

97. Money has separated the acts of sale and purchase. Explain.

Ans : DELHI 2007

With the advent of money, individuals can purchase or sell goods without engaging in

reciprocal exchanges. This innovation resolves the barter system's challenge of requiring a double coincidence of wants, thereby simplifying trade and economic transactions.

- 98.** Is the general price level in the economy influenced by money supply? Explain.

Ans : OD 2008

An increased money supply boosts aggregate demand. Without a matching rise in aggregate supply, this leads to an increase in the general price level within the economy.

- 99.** Intrinsic value refers to the material worth of money, while face value is its nominal worth as currency. When these values diverge significantly, it can lead to unusual economic behaviors. What happens when the intrinsic value of money exceeds its face value?

Ans : FOREIGN 2010

Money functions as a commodity when its intrinsic value, derived from the material it is made of, surpasses its face value, which is the value printed on the currency or coin.

- 100.** Do you consider a commercial bank "creator of money" in the economy?

Ans : SQP 2013

Commercial banks significantly contribute to credit creation in the economy. They generate credit through demand deposits linked to loans. These demand deposits often exceed cash reserves. For instance, if cash reserves are ₹1,000 and demand deposits are ₹10,000, banks create credit ten times their reserves.

- 101.** Will credit creation by commercial banks during an inflationary situation be beneficiary to the economy or have a negative impact?

Ans : COMP 2016

Credit creation by commercial banks raises the money supply, boosting aggregate demand. During inflation, this results in excess demand, worsening the situation and driving prices higher, thereby having a negative impact on the economy.

- 102.** How can improvement in banking habits of the people accelerate the pace of economic growth?

Ans : DELHI 2021

Improved banking habits encourage people to deposit cash in banks rather than holding it. This

rise in primary deposits leads to more secondary deposits and increased credit creation. Enhanced credit creation boosts economic growth by providing greater access to credit for investment purposes.

- 103.** Define Legal Reserve Ratio.

Ans : OD 2023

The Legal Reserve Ratio (LRR) is the proportion of total deposits that commercial banks must legally reserve with the central bank. It consists of :

- (i) Cash Reserve Ratio (CRR): The minimum funds commercial banks must deposit with the central bank.
- (ii) Statutory Liquidity Ratio (SLR): The reserve of assets maintained by banks with the central bank.

- 104.** State the role played by the central bank as the "lender of last resort".

Ans : FOREIGN 2019

When commercial banks cannot fulfill their financial needs from other sources, they turn to the central bank, which acts as the lender of last resort, providing loans and advances.

- 105.** State, whether the following statement is true or false:
'All' financial Institutions are banking institutions.

Ans : SQP 2020

False; As a financial institution can be a banking institution only when it performs both the functions of accepting deposits and advancing loans.

- 106.** State, whether the following statement is true or false:
'Margin requirement is raised by the Central Bank to increase money supply.'

Ans : COMP 2020

False; Central Bank reduces the margin requirements in order to increase money supply.

- 107.** How can Reserve Bank of India help in bringing down the foreign exchange rate which is very high?

Ans : DELHI 2001

The Reserve Bank of India can devalue the Indian rupee to reduce the high exchange rate. Alternatively, it can increase the supply of foreign

exchange by selling from its reserves, thereby lowering its value.

THREE MARK QUESTIONS

- 108.** Explain the problem of double coincidence of wants faced under barter system. How has money solved it?

Ans :

OD 2009

The barter system involved direct exchange of goods without using money. It required a “double coincidence of wants,” meaning both parties needed to have goods that the other wanted. For instance, Ram needing cloth from Shyam would only work if Shyam desired what Ram offered. Finding such matching needs was often challenging, hindering trade. Money simplified transactions by acting as a universal medium of exchange, allowing individuals to purchase goods or services they need without relying on reciprocal needs.

- 109.** The barter system, based on the direct exchange of goods and services, had inherent limitations that made it inefficient for larger economies. One significant issue was related to the preservation of value over time. Explain “difficulty in storing wealth” problem faced in the barter system of exchange.

Ans :

FOREIGN 2011

Storing value refers to preserving purchasing power for future use, which the barter system failed to ensure. Goods like wheat and vegetables lacked durability and degraded over time. Additionally, storing goods required significant resources, and bulky items were difficult to exchange conveniently, often leading to losses during urgent trades. The introduction of money addressed these issues. Money is durable, involves lower storage costs, and enjoys general acceptability, effectively connecting the present with the future and serving as a reliable store of value.

- 110.** State the two components of M_1 , measure of Money Supply.

Ans :

DELHI 2018

The components of the measure of money supply M_1 are:

1. CU (Currency with the Public): Includes currency notes issued by the Reserve Bank of India and coins in circulation.
2. DD (Demand Deposits at Banks): Refers to the demand deposits held by the public in banks.
3. OD (Other Deposits): Comprises demand deposits with the RBI from public financial institutions, foreign central banks, foreign governments, and international financial institutions like the IMF.

These components together define the money supply in the economy.

- 111.** State the meaning and components of money supply.

Ans :

SQP 2012

The supply of money refers to the total stock of money available with the public on a given day. It is expressed as:

$$M = C + DD$$

1. Currency with Public (C): This includes coins and currency notes held by the public, excluding any currency held by banks.
2. Demand Deposits (DD): These are bank deposits on which cheques can be issued and are payable on demand. They are considered equivalent to currency and form part of the money supply.

This measure reflects the money accessible for transactions in the economy.

- 112.** Explain the “medium of exchange” function of money. How has it solved the related problem created by barter?

Ans :

COMP 2004

One key function of money is serving as a medium of exchange, enabling payment for goods and services. Producers sell goods to wholesalers for money, and wholesalers, in turn, sell to consumers in exchange for money. Similarly, individuals sell their services for money and use it to buy necessities. This role of money eliminates the double coincidence of wants inherent in the barter system. Bank money also functions as a medium of exchange when it gains general acceptability, underscoring its value and utility in transactions.

- 113.** Explain the ‘Store of Value’ function of money. How has it solved the related problem created by barter?

Ans :

DELHI 2000

The store of value function allows wealth to be saved for future use. Money facilitates this by enabling individuals to save earnings until they choose to spend them. Its convenience arises from: (i) availability in suitable denominations, (ii) ease of portability and economical storage, and (iii) general acceptability, allowing it to be exchanged for goods anytime. In contrast, the barter system lacked suitable assets for storage, as goods needed to be non-perishable, portable, and acceptable for exchange—qualities fulfilled by money, overcoming this limitation.

- 114.** Explain the ‘Unit of Account’ function of money. How has it solved the related problem created by barter?

Ans :

OD 2003

The unit of account function means measuring the value of goods and services in monetary terms. The barter system faced challenges in determining exchange rates since, without a common value unit, each commodity’s price had to be expressed relative to others, leading to complexity. The introduction of money solved this issue by providing a standard measure to compare prices. Money allows values to be expressed simply, like ₹20 per meter or ₹10 per kilogram, standardizing borrowing, lending, and business accounting, thereby facilitating trade.

- 115.** Explain the ‘standard of deferred payment’ function of money. How has it solved the related problem created by barter?

Ans :

FOREIGN 2005

The standard of deferred payment refers to the use of money for transactions settled in the future. In a modern economy, many payments are deferred and conveniently stated in monetary terms due to money’s relatively stable value and general acceptability. In the barter system, future payments were challenging due to fluctuations in commodity values and disagreements over the quality of goods. Money resolves these issues, facilitating borrowing and lending, promoting trade, and enabling the establishment of financial institutions.

- 116.** How does money overcome the problems of barter system? Explain briefly.

Ans :

SQP 2014

Money addresses the limitations of the barter system through the following functions:

1. **Medium of Exchange:** Money acts as an intermediary for exchanging goods and services, eliminating the need for a double coincidence of wants and fostering trade among individuals and nations.
2. **Measure of Value:** It enables all goods and services to have prices, simplifying the comparison and measurement of their exchange values.
3. **Standard of Deferred Payment:** Money’s stable value, durability, and general acceptability make it ideal for future payments, unlike fluctuating commodities.
4. **Store of Value:** Money can be stored without losing value, unlike perishable goods, offering a convenient and durable way to preserve wealth.

- 117.** Currency is issued by the Central Bank, yet we say that commercial banks create money. Explain. How is this money creation by commercial banks likely to affect the national income? Explain.

Ans :

COMP 2017

Money creation, or credit creation, is a crucial function of commercial banks, enabling them to generate credit far exceeding the initial deposits. The money supply has two components: currency with the public, issued by the Central Bank, and demand deposits, created by commercial banks. When banks grant loans, they create equivalent deposits in the borrower’s name, adding to the money supply. This process promotes investment by providing funds to investors. An increased money supply boosts aggregate demand, thereby raising national income.

- 118.** How do changes in bank rate affect money creation by commercial banks? Explain.

Ans :

DELHI 2020

The Bank Rate is the interest rate at which the Central Bank provides funds to commercial banks during emergencies, acting as the “lender of the last resort.” Adjusting the bank rate impacts borrowing costs for banks and, subsequently, the economy:

1. **Increase in Bank Rate:** Raising the bank rate raises borrowing costs for commercial banks, leading them to hike lending rates for the public and businesses. This discourages borrowing, reduces credit creation, and decreases money supply in the economy.
2. **Decrease in Bank Rate:** Lowering the bank

rate reduces borrowing costs for commercial banks, enabling them to lower lending rates. This encourages borrowing, increases credit creation, and boosts money supply in the economy.

- 119.** Elaborate, how does a Central Bank stabilize money supply through 'Bank Rate'.

Ans :

SQP 2020

Bank rate is the rate at which the central bank of a country gives credit to the commercial banks to meet their long-term needs. Through changes in bank rate, the central bank affects the money supply in the economy.

Decrease in Bank Rate. When credit is to be expanded or money supply is to be increased, the central bank reduces the bank rate. A low bank rate encourages the banks to keep a small proportion of the deposits as reserves and use a greater portion for giving out loans to the borrowers or investors. Thus, money supply increases. On the other hand, when money supply is to be reduced, Central Bank raises the bank rate. An increase in bank rate increases the cost of borrowings of commercial banks forcing them to increase the lending rates which discourages the borrowers from taking loans. This decreases money supply in the economy.

- 120.** Discuss the function of Central Bank as 'Banker, Agent and Advisor' to the Government.

or

Explain 'Government's Bank' function of Central Bank.

Ans :

OD 2020

The Central Bank serves as a banker, agent, and financial advisor to the government:

1. As a Banker: It performs all banking functions for the government, including:
 - (i) Maintaining a current account for government cash balances.
 - (ii) Accepting receipts, making payments, and managing exchanges and remittances.
 - (iii) Providing short-term loans and advances to the government.
2. As an Agent: It manages public debt on behalf of the government.
3. As a Financial Advisor: It offers guidance on economic, financial, and monetary matters to assist in policymaking.

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- 121.** Explain the 'bank of issue' function of the Central Bank.

Ans :

FOREIGN 2015

The Central Bank exclusively issues currency in a country. In India, the Reserve Bank of India (RBI) is authorized to issue paper currency, except one-rupee notes and coins, which are issued by the Ministry of Finance. This authority ensures uniformity in note circulation and allows the Central Bank to directly regulate the money supply. Centralized currency issuance enhances the efficiency of the financial system and strengthens monetary control.

- 122.** Explain the role of 'Open market operations' in reducing money supply.

Ans :

SQP 2019

Open Market Operations involve the Central Bank buying or selling government securities to regulate the money supply.

Effect on Reducing Money Supply: During inflation or excess demand, the Central Bank sells government securities. Payments for these securities are made through banks, reducing the cash reserves of commercial banks. This limits their ability to lend, decreasing credit creation and the overall money supply. Since the money flows back to the Central Bank and exits circulation, aggregate demand in the economy falls, helping to control inflation.

- 123.** Explain the role of Cash Reserve Ratio in controlling credit creation.

Ans :

COMP 2022

The Cash Reserve Ratio (CRR) is the proportion of a commercial bank's net demand and time deposits that must be held as cash reserves with the Central Bank.

1. Increase in CRR: Banks must hold a higher fraction of their deposits with the Central Bank, reducing their ability to lend. This decreases borrowings and limits the banks' credit creation capacity, leading to a decline in the money supply.
2. Decrease in CRR: Banks hold a smaller fraction of deposits with the Central Bank, increasing their lending capacity. This boosts credit creation and raises the money supply in the economy.

- 124.** Explain the role of Cash Reserve Ratio in increasing money supply.

Ans :

DELHI 2002

The Cash Reserve Ratio (CRR) is the mandated percentage of a bank's total deposits that must be kept as cash with the Central Bank. Changes in CRR directly impact the lending capacity of banks and the money supply.

Effect on Increasing Money Supply: When the CRR is lowered, banks hold less cash with the Central Bank, freeing up more funds for lending. This increases credit creation and expands the money supply in the economy. Therefore, to boost the flow of credit, the Central Bank reduces the CRR.

- 125.** Explain the role of Statutory Liquidity Ratio in increasing money supply.

Ans :

OD 2006

The Statutory Liquidity Ratio (SLR) is the percentage of a bank's deposits that it must maintain as reserves in the form of liquid assets like cash, gold, or government-approved securities. The Central Bank can modify the SLR to influence credit and money supply.

Effect on Increasing Money Supply: When the Central Bank reduces the SLR, banks are required to maintain a smaller portion of deposits as reserves. This allows banks to lend more, thereby increasing credit creation and expanding the money supply in the economy.

- 126.** What is Legal Reserve Ratio? Explain its components.

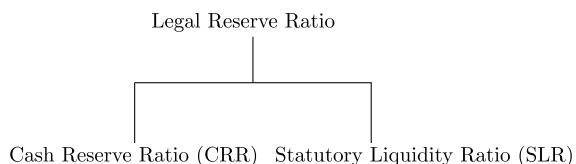
Ans :

FOREIGN 2007

The Legal Reserve Ratio is the legally mandated minimum fraction of a bank's deposits that must be held as reserves, either in cash or liquid assets. It has two components:

1. Cash Reserve Ratio (CRR): The portion of deposits that commercial banks must keep as reserves with the Central Bank.
2. Statutory Liquidity Ratio (SLR): The portion of deposits that commercial banks must maintain in cash, liquid assets, or approved securities with themselves.

The Legal Reserve Ratio is the sum of CRR and SLR, ensuring liquidity and financial stability in the banking system.



- 127.** Explain the role of Repo Rate in reducing money supply.

Ans :

SQP 2008

The Repo Rate is the interest rate at which the Central Bank (RBI) provides short-term loans to commercial banks. It is a tool used to regulate money supply and credit creation.

1. Impact of Rising Repo Rate: Higher Repo Rates make borrowing costlier for commercial banks, prompting them to increase lending rates for the public. This discourages borrowing, reduces credit demand, and lowers credit creation in the economy.
2. Impact of Falling Repo Rate: Lower Repo Rates reduce borrowing costs for banks, encouraging them to lend more. This increases credit creation and expands the money supply in the economy.

- 128.** Explain the role of reverse repo rate in controlling money supply.

Ans :

COMP 2010

The Reverse Repo Rate is the interest rate the Central Bank pays commercial banks for depositing surplus funds with it.

1. Effect of Increasing Reverse Repo Rate: A higher rate incentivizes commercial banks to deposit more funds with the Central Bank, reducing their liquidity and lending capacity. This curtails credit creation by commercial banks.
2. Effect of Decreasing Reverse Repo Rate: A lower rate discourages banks from depositing excess funds with the Central Bank, increasing their liquidity. This enhances their lending capacity, boosting credit creation in the economy.

- 129.** Explain the role of Reverse Repo Rate in increasing money supply.

Ans :

DELHI 2013

The Reverse Repo Rate is the interest rate at which the RBI borrows funds from commercial banks for a short period. Banks use this facility to park their surplus funds with the RBI and earn interest.

Role in Increasing Money Supply: To expand credit or increase the money supply, the Central Bank lowers the Reverse Repo Rate. This makes lending to the public more profitable for banks compared to depositing funds with the RBI.

Consequently, banks prefer advancing loans, which boosts credit creation and increases the money supply in the economy.

130. Giving reasons, state whether the following changes by RBI will increase or decrease the money supply.

- (i) Decrease in bank rate.
- (ii) RBI increases the margin from 20% to 30%.
- (iii) Purchase of securities in the open market.

Ans :

OD 2016

An increase in the money supply raises aggregate demand, and if aggregate supply does not rise correspondingly, it leads to higher general price levels.

- (i) Decrease in Borrowing Costs: This increases the money supply as lower borrowing costs encourage people to take more loans, boosting credit and demand.
- (ii) Increase in Margin Requirements: This reduces the money supply, as higher margins mean smaller loans relative to the security value. This discourages borrowing, reducing credit creation.
- (iii) Purchase of Securities by RBI: This raises the money supply, as the RBI releases funds to purchase securities, increasing commercial banks' resources for lending, thereby expanding credit and money supply.

131. As per the following news published in "The Hindu" on 6th August, 2022:

The Monetary Policy Committee (MPC) of the Reserve Bank of India raised the Repo Rate by 50 basis points." Identify and explain the likely cause and consequences behind this type of action taken by the Reserve Bank of India.

Ans :

COMP 2023

The Repo Rate is the interest rate charged by the Central Bank on loans to commercial banks.

Effect During Excess Demand and Inflation:

The Central Bank raises the Repo Rate to discourage borrowing by commercial banks. Higher Repo Rates lead commercial banks to increase their lending rates, making credit more expensive for borrowers. This reduces the demand for loans and discourages investment.

Additionally, reduced credit availability helps lower aggregate demand, addressing the inflationary gap and controlling inflation effectively.

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132. Giving reasons, state whether the following statements are true or false.

- (i) CRR and SLR are complementary to each other in controlling credit creation in the economy.
- (ii) Market rate of interest and bank rate share a direct relationship.
- (iii) Currency created by the central bank is called bank money.

Ans :

FOREIGN 2021

- (i) True: A rise in the Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) reduces the funds available for commercial banks to lend, thereby restricting their credit creation capacity.
- (ii) True: An increase in the Bank Rate by the Central Bank raises the borrowing costs for commercial banks, leading them to raise their market interest rates. Conversely, a decrease in the Bank Rate lowers these costs and market rates.
- (iii) False: Money issued by the Central Bank is referred to as high-powered money, not regular money supply.

133. Describe any two main functions of a Central Bank.

Ans :

SQP 2023

The Central Bank serves as the apex institution of a country's monetary system and performs several key functions, including:

- (i) Bank of Issue: This function refers to the Central Bank's exclusive legal right to issue currency, ensuring a monopoly on note issuance. This monopoly brings uniformity to currency circulation and grants the Central Bank the authority to influence the money supply, as currency held by the public is a component of the money supply.
- (ii) Bankers' Bank: The Central Bank acts as a bank for other banks, maintaining a relationship similar to the one commercial banks have with their customers. It holds their required cash reserves, provides financial securities, offers advice, discounts bills and securities, and extends loans during emergencies.

134. Describe any two methods by which Reserve Bank of India can regulate money supply.

Ans :

COMP 2001

The Central Bank regulates the money supply and credit in the economy through the following measures:

- (i) **Bank Rate Policy:** This refers to the interest rate at which the Central Bank provides funds to commercial banks during emergencies, acting as the lender of last resort. An increase in the bank rate raises the cost of borrowing for commercial banks, prompting them to raise their lending rates. This discourages borrowing by the public, thereby reducing the volume of credit and money supply in the economy.
- (ii) **Open Market Operations:** These involve the Central Bank buying or selling government securities in the open market. When the Central Bank buys securities, payments to sellers are deposited in commercial banks, increasing their cash reserves and lending capacity, which expands the money supply. Conversely, selling securities reduces commercial banks' cash reserves and lending ability, thereby decreasing the money supply.

FOUR MARK QUESTIONS

- 135.** Explain any two functions of money.

Ans :

DELHI 2009

Money serves four primary functions :

1. **Medium of Exchange:** Money facilitates the trade of goods and services by acting as a universally accepted medium. It overcomes the limitations of the barter system, enabling easier transactions and offering individuals freedom to choose goods and negotiate better deals.
2. **Standard of Deferred Payment:** Money is widely accepted for future payments, supporting borrowing and lending, and fostering financial institutions.
3. **Unit of Account:** Money provides a standard measure for valuing goods and services, aiding in price comparison, maintaining business records, and enabling the banking system.
4. **Store of Value:** Money preserves value over time, is portable, and offers lower storage costs, eliminating issues of perishability and enabling future use.

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- 136.** Explain, using a numerical example, how an increase in reserve deposit ratio affects the credit creation power of the banking system.

Ans :

SQP 2019

The reserve deposit ratio refers to the minimum reserves a bank must maintain at any given time, typically expressed as a percentage. This ratio, mandated by the central bank, represents the portion of deposits that commercial banks are required to hold. It is a key monetary policy instrument, essential for regulating money supply. A higher reserve deposit ratio decreases the lending capacity of banks. During inflation, central banks often raise the ratio to limit credit creation. For instance, if a bank holds ₹100 crore in deposits and the reserve ratio is set at 6%, it must maintain ₹6 crore as reserves. If the central bank raises the ratio to 10%, the required reserves increase to ₹10 crore. Consequently, the bank's lending capacity reduces from ₹94 crore to ₹90 crore due to the 4% increase in the reserve deposit ratio, demonstrating how a higher ratio curbs lending power.

NUMERICAL QUESTIONS

- 137.** Explain 'Bankers' Bank' function of the Central Bank.

or

Elaborate the 'Banker's Bank and Supervisor' function of the Reserve Bank of India.

Ans :

COMP 2024

Being the apex bank, the Central Bank acts as the banker to other banks, i.e., it has the same relationship with commercial banks as the latter maintains with the general public.

As the banker to banks, the Central Bank functions in following capacities:

- (i) **Custodian of Cash Reserves:** It is the custodian of their cash reserves. Banks of the country are required to keep a certain percentage of their deposits with the Central Bank (known as Cash Reserve Ratio). In this way, Central Bank acts as a custodian of cash reserves of commercial banks.
- (ii) **Lender of the last Resort:** When commercial banks fail to meet their financial requirements from other sources, they approach the Central Bank to give loans and advances as lender of

the last resort.

- (iii) Clearing House: It acts as a bank of central clearance, settlements and transfers. As all commercial banks have their accounts with the Central Bank, it can easily settle claims of various commercial banks against each other by making debit and credit entries in their accounts.
- (iv) Act as a Supervisor: As a supervisor, the Central Bank regulates and controls the commercial banks by taking care of their licensing, branch expansion, etc.

- 138.** Explain the relationship between legal reserve ratio and money multiplier with a numerical example.

Ans :

OD 2011

$$\text{Money Multiplier} = \frac{1}{\text{LRR}}$$

There is an inverse relationship between the two, i.e., lower the LRR, higher the value of money multiplier and vice-versa.

For example,

Suppose, LRR is 20%, then money multiplier will be

$$\text{Money multiplier} = \frac{1}{\text{LRR}} = \frac{1}{0.20} = 5$$

Now, if LRR is 10%, then

$$\text{Money multiplier} = \frac{1}{\text{LRR}} = \frac{1}{0.10} = 10$$

Therefore, when LRR decreases, money multiplier increases.

- 139.** Suppose initial fresh deposits with banks = ₹50,000 and LRR is 20%. How much would be the total money creation in the economy?

Ans :

FOREIGN 2012

LRR = 20% or 0.20

Initial fresh deposit = ₹50,000

Total Deposit Creation

$$= \text{Initial fresh deposit} \times \frac{1}{\text{LRR}}$$

$$= 50,000 \times \frac{1}{0.20}$$

$$= 50,000 \times 5 = ₹2,50,000$$

- 140.** “The process of credit creation by commercial banks comes to an end when the total of required reserves become equal to the initial deposits.” With the help of a numerical example, prove that the given statement is true.

Ans :

DELHI 2023

The power of commercial banks which enables them to expand their deposits through loans is called credit creation. Through this process, commercial banks are able to create credit, which is in far excess of their cash reserves.

This process is based on the following assumptions:

(i) There is a single banking system in the economy.

(ii) All transactions are routed through banks.

Numerical Example: Suppose, a customer deposits ₹10,000 in bank and the Legal Reserve Ratio (LRR) is 20%. Bank has to pay interest on these deposits. Therefore, it further lends this money to people after retaining a part of this amount to meet its customers' obligations. Since LRR is 20%, the bank will keep 20% of deposits as reserve, i.e., ₹2,000 and will lend the remaining 80%, i.e., ₹8,000. Those who borrow will spend this money and these ₹8,000 will come back to the bank in the form of deposits. Bank again keeps 20% of ₹8,000, i.e., ₹1,600 as reserves and lends ₹6,400 to those who need it. In this way, deposit will go on increasing @ 80% of the last deposit.

This deposit creation comes to an end when the total reserves become equal to the initial deposit, i.e., ₹10,000 in this case.

Deposit creation by Commercial Bank

Rounds	Deposits (₹)	Loans (₹)	Reserves(₹)
I	10,000	8,000	2,000
II	8,000	6,400	1,600
III	6,400	5,120	1,280
⋮	⋮	⋮	⋮
Total	50,000	40,000	10,000

$$\text{Total Credit Creation} = \text{Initial deposits} \times \frac{1}{\text{LRR}}$$

$$= 10,000 \times \frac{1}{0.2}$$

$$= 10,000 \times 5 = ₹50,000$$

Since LRR is 20% therefore money multiplier $\left(\frac{1}{\text{LRR}}\right) = 5$

Thus, the total deposit creation is 5 times the initial deposit.

- 141.** If Legal Reserve Ratio is 0.2 and new deposits are ₹1,000, explain the process of money creation by the commercial banks.

Ans :

SQP 2004

Process of Money Creation

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Rounds	Deposits (₹)	Legal Reserves (LRR = 20%)	Loan (₹)
Initial	1000	200	800
First Round	800	160	640
Second Round	640	128	512
⋮	⋮	⋮	⋮
Total	5,000	1,000	4,000

Commercial banks create money : They create demand deposits in the process of giving loans. The money creation process can be explained with the help of an example.

Suppose, initial deposit is ₹1,000 and LRR is 0.2 or 20%. In this case, banks keep 20%, i.e., ₹200 as reserves and lend the remaining ₹800. Those who borrow this money use it for making payments and those who receive payments put the money back into banks. In this way, banks receive new deposits of ₹800. The banks again keep 20%, i.e., ₹160 as cash and lend the rest, i.e., ₹640. In this way, in every round, 80% of the loans are converted into deposits.

Given the amount of initial deposits and LRR, the total money creation is:

$$\begin{aligned}\text{Total Demand Deposit} &= \text{Initial deposit} \times \frac{1}{LRR} \\ &= ₹1,000 \times \frac{1}{0.2} = ₹5,000\end{aligned}$$

Since bank deposits are a part of money supply, it is also called money creation.

- 142.** If Legal Reserve Ratio is 0.1 and new deposits are ₹10,000, explain the process of deposit creation by the commercial banks.

Ans :

COMP 2000

Process of Deposit Creation

Round	Deposits (₹)	Legal Reserves (LRR = 10%)	Loan (₹)
Initial	1,000	1,000	9,000
First Round	9,000	900	8,100
Second Round	8,100	810	7,290
⋮	⋮	⋮	⋮
Total	1,00,000	10,000	90,000

The deposit creation process will be as follows: As given in the question, the initial deposit is ₹10,000 and LRR is 0.1 or 10%. In this case, banks keep ₹1,000 as reserve and lend the remaining ₹9,000. The borrowed money is used to make payments and the recipients of these payments deposit the money back in the banks. In this way, banks receive new deposits of ₹9,000 of which 10%, i.e., ₹900 is kept as reserves and the remaining amount (i.e., ₹8100) is given as loans. In this way, in every round, 90% of the loans are converted into new deposits.

Given the amount of initial deposits and LRR, the total deposit creation is:

$$\begin{aligned}&= \text{Initial deposit} \times \frac{1}{LRR} \\ &= ₹10,000 \times \frac{1}{0.1} = ₹1,00,000\end{aligned}$$

- 143.** If Legal Reserve Ratio is 0.2 and new deposits are ₹5000, explain the process of money creation by commercial banks.

Ans :

DELHI 2003

Process of Money Creation

Round	Deposits (₹)	Legal Reserves (LRR = 20%)	Loan (₹)
Initial	5,000	1,000	4,000
First Round	4,000	800	3,200
Second Round	3,200	640	2,560
⋮	⋮	⋮	⋮
Total	25,000	5,000	20,000

The money creation process will be as follows:

As given in the question, the initial deposit is ₹5,000 and LRR is 0.2 or 20%. In this case, banks keep ₹1,000 as reserve and lend the remaining ₹4,000. The borrowed money is used to make payments and the people who have received these payments again deposit the money in banks. In this way, banks receive new deposit of ₹4,000 of which 20% i.e., ₹800 is kept as reserve and the remaining amount (i.e., ₹3,200) is given as loans. In this manner, in every round, 80% of the loans advanced are converted into new deposits.

Given the amount of initial deposit and LRR, the total amount of money creation is:

$$= \text{Initial deposit} \times \frac{1}{LRR}$$

$$= ₹5,000 \times \frac{1}{0.2} = ₹25,000$$

- 144.** Explain the process of money creation by the commercial banks with the help of a numerical example.

Ans :

OD 2005

Money or credit creation by commercial banks is one of the most important function of commercial banks. It is determined by:

- the amount of initial deposits; and
- the Legal Reserve Ratio (LRR). It is the minimum ratio of deposits legally required by the commercial bank to be kept as cash.

Process of credit creation : The process of credit creation by banks is made on the assumption that all receipts and payments in the economy are made through banks. This can be illustrated with the help of an example. Suppose, that all banks receive initial cash deposits of ₹1,000 and CRR is 10%. It means that banks are required to keep only 10% of deposits (i.e., ₹100) and lend the remaining amount of ₹900. Banks do not give loans in cash rather they open an account in the borrower's name and deposit the loan amount in his account. The borrower is free to withdraw the amount as and when he wishes. These are called secondary deposits.

Suppose, borrowers withdraw the entire amount of loan and spend it for making payments of goods and services received. The sellers of these goods and services receive ₹900 as revenue and deposit the same in their respective banks. It will increase the demand deposits of banks by ₹900.

Now, Banks keep 10% of these new deposits, i.e., ₹90 as cash reserve and lend the remaining amount of ₹810. The borrowers will again use their loans for making payments which again come back into the accounts of those who have received these payments.

Banks again will keep 10% of ₹810 and lend the remaining amount of ₹729 (₹810 – ₹81).

Like this in each successive round creation of deposits will be 90% of the previous round.

This working has been shown in the following table: Process of Credit Creation

Round	Deposits (₹)	Legal Reserves (LRR = 10%)	Loan (₹)
Initial	1,000	1,000	9,000

First Round	900	90	810
Second Round	810	81	729
⋮	⋮	⋮	⋮
Total	10,000	1,000	9,000

$$\text{Money Multiplier} = \frac{1}{LRR} = \frac{1}{0.10} = 10$$

Total Demand Deposits

$$= \text{Money Multiplier} \times \text{Cash Reserve Deposits}$$

$$= 10 \times ₹1,000 = ₹10,000$$

This shows that the supply of money has increased by ₹10,000 in the form of demand deposits.

- 145.** Explain the 'lender of last resort' function of Central Bank.

Ans :

FOREIGN 2014

When commercial banks exhaust all resources to supplement their funds at the time of liquidity crisis, the Central Bank acts as the lender of the last resort for them. When commercial banks cannot meet obligations of their depositors, the Central Bank comes to their help. The Central Bank advances credit against eligible securities subject to certain terms and conditions. This saves the commercial banks from a possible breakdown. This is an important function of the Central Bank in the banking system of a country.

- 146.** Explain how open market operations are helpful in controlling credit creation.

or

"Open Market Operation by the Reserve Bank of India (RBI) helps in regulating money supply in the economy." Justify the given statement.

Ans :

SQP 2020

An important tool in the hands of the Central Bank for affecting money creation by Commercial banks is open market operations. Open market operations mean the sale and purchase of all kinds of bills and securities by the central bank in the open market.

According to this method, central bank controls the volume of credit by increasing or decreasing the quantity of money in the economy through sale and purchase of securities in the money market.

- When central bank of the country wants to increase the volume of credit, it starts

purchasing securities from the market. These securities are generally bought at a higher price than the market price. As such, banks start selling them, as a result of which their cash reserves increase, i.e., their liquid assets increase. This means that banks now can create more credit.

- (ii) On the contrary, when central bank wants to control the volume of credit, it starts selling securities in the market which are bought by the commercial banks. With the result, cash reserves of commercial banks are reduced and this adversely affects their power of creating credit.

CASE BASED QUESTION

- 147.** Read the para given below and answer the questions that follow:

The Reserve Bank of India (RBI) announced on Friday that interest rates will remain unchanged, while ensuring ample liquidity to support economic recovery and manage the government's borrowing requirements. The six-member Monetary Policy Committee (MPC) decided to continue its accommodative stance to revive growth and mitigate COVID-19's economic impact, while keeping inflation within the target range, said Governor Shaktikanta Das.

The Union Budget 2021 outlined an expansive fiscal approach to boost growth, and the RBI affirmed its support through appropriate monetary policies. To manage higher government borrowings, retail investors were given direct access to invest in government securities. The RBI also raised the Cash Reserve Ratio (CRR) to withdraw surplus funds from banks and use them for targeted market operations.

The MPC kept the repo rate at 4 percent and the reverse repo rate at 3.35 percent. Governor Das announced CRR restoration to 3.5 percent in March and 4 percent in May, enabling the central bank to use the funds for open market operations and liquidity management.

- (i) The two essential conditions for a financial institution to become a bank are:
- accepting deposits and lending
 - printing currency notes
 - both (a) and (b)
 - neither (a) nor (b)

- (ii) Which of the following is not a quantitative method of credit control?
- open market operation
 - bank rate policy
 - legal reserve requirements
 - margin requirements
- (iii) The central bank does not performs the following functions.
- conducts sale and purchase of securities for foreign governments securities.
 - acts as a lender of the last resort.
 - controls money supply and credit.
 - manages the nation's reserves of international currency.
- (iv) Loans offered by commercial banks _____ (increase/decrease) the money supply in the economy.

Ans :

- (a) accepting deposits and lending
- (d) margin requirements
- (a) conducts sale and purchase of securities for foreign governments securities.
- Increase

NODIA

- 148.** Read the para given below and answer the questions that follow:

The money supply encompasses all currency and liquid instruments in a country's economy at a specific time, including cash and deposits easily convertible to cash. Governments, through central banks and treasuries, issue currency and coins, while regulators influence the money supply through reserve requirements, credit policies, and other regulations.

Economists assess the money supply to design policies by controlling interest rates and regulating the economy's money flow. An increase in money supply typically lowers interest rates, boosting investment, consumer spending, and business production. This, in turn, raises labour demand. Conversely, a reduction in money supply or slower growth can lead to opposite effects, reducing economic activity.

- (i) Which of the following statement is not true regarding money supply?
- It is a stock variable.
 - It does not include money held by government and the banking system.
 - It includes term deposits with the banks.
 - It includes currency held with the public.

- (ii) From the set of statements given in Column I and II, choose the correct pair or statements:

	Column I		Column II
1.	Bank money	A.	exchange of money for goods
2.	Barter exchange	B.	a component of money supply.
3.	Demand deposits with banks	C.	demand deposits created by commercial banks
4.	Legal tender	D.	money which can be legally used to make payment of debts.

- (a) 1-A
(b) 2-B
(c) 3-C
(d) 4-D
- (iii) Who regulates money supply in India?
(a) Government of India
(b) Reserve Bank of India
(c) Commercial banks
(d) Planning Commission
- (iv) Which of the following is not a function of The Reserve Bank of India?
(a) It helps in barter exchange.
(b) It issues the currency of the country.
(c) It acts as a bank of the banking system.
(d) It is the custodian of the foreign exchange reserves of the economy.

Ans :

- (i) (c) It includes term deposits with the banks.
(ii) (d) 4-D
(iii) (b) Reserve Bank of India
(iv) (a) It helps in barter exchange.

- 149.** Read the para given below and answer the questions that follow:

The uncertainty caused by the COVID-19 pandemic in India led to a sharp rise in currency circulation as people hoarded cash or shifted money to accessible deposits to guard against salary cuts or job losses. RBI data shows that India's M3 money supply increased by 6.7% in the first five months of 2020 compared to 2019, marking the highest growth in seven years. Currency in circulation, including money with the public and banks, also surged significantly.

Gross capital formation, representing total investments in fixed capital, fell sharply. Savings and current account deposits dropped by 8% due to higher withdrawals, while the growth in currency notes held by the public exceeded bank deposits.

Although a rise in money supply often signals growth in consumption and business investments, analysts noted that this increase was unlikely to drive either. Instead, it reflected higher cash withdrawals to meet needs during the lockdown until economic conditions stabilize.

- (i) _____ (quantitative / qualitative) instruments of monetary policy affect the direction of credit in the economy.
- (ii) Choose the correct pair of statements from the given statements in Column I and II:

	Column I		Column II
1.	LRR	A.	rate of interest at which Central Bank lends to commercial banks for long term
2.	Reverse Repo Rate	B.	rate at which the RBI borrows money from commercial banks
3.	Bank Rate	C.	rate at which Central Bank advances short term loans to commercial banks
4.	Repo Rate	D.	minimum reserve maintained by a commercial bank

- (a) 1-A
(b) 2-B
(c) 3-C
(d) 4-D
- (iii) Which of the following statements is true?
(a) Money Multiplier is inversely related to LRR.
(b) Loans given by Commercial banks are equal to the amount of deposits they receive.
(c) CRR is decreased to control inflation
(d) Demand deposits refer to the cash reserves of Commercial Banks.

- (iv) The moral influence that the Central Bank applies on member banks in order to get them to act in line with its policy is called as _____.

Ans :

- (i) Qualitative
- (ii) (b) 2-B
- (iii) (a) Money Multiplier is inversely related to LRR.
- (iv) Moral suasion

150. Read the para given below and answer the questions that follow:

The Reserve Bank of India (RBI) serves as India's central bank and stands at the apex of the country's banking structure. As a key governing and regulatory body, it plays a vital role in facilitating the government's economic functions. Established on April 1, 1935, and nationalized in 1949, the RBI operates under the provisions of the RBI Act. Its activities are overseen by a government-appointed Board of Directors. The RBI is the sole authority for issuing currency, responsible for printing, distributing, and regulating the flow of money in the economy.

The RBI provides essential banking services to both central and state governments, including deposits, remittances, loans, and advances. It supervises commercial banks, offering them financial assistance through short-term loans. As the custodian of foreign exchange reserves, the RBI safeguards the value of the rupee in the global market by maintaining adequate reserves to counteract fluctuations.

Additionally, the RBI regulates credit and money supply in the economy. It employs qualitative and quantitative tools to expand or contract available credit based on economic needs, ensuring stability and growth.

- (i) If the legal reserve ratio is 20%, the value of money multiplier would be:
 - (a) 2
 - (b) 3
 - (c) 5
 - (d) 4
- (ii) In order to encourage investment in the economy, the central bank may:
 - (a) reduce cash reserve ratio.
 - (b) increase cash reserve ratio.
 - (c) sell government securities in open market.
 - (d) increase the bank rate.

- (iii) The monetary policy generally targets to ensure:

- (a) price stability in the economy.
- (b) employment generation in the country.
- (c) stable foreign relations.
- (d) greater tax collections for the government.

- (iv) Lowering the bank rate is a measure to:

- (a) encourage foreign investment in the economy.
- (b) increase money supply in the economy.
- (c) discourage investment activity in the economy.
- (d) increase government expenditure.

Ans :

FOREIGN 2018

- (i) (c) 5
- (ii) (a) reduce cash reserve ratio.
- (iii) (a) price stability in the economy.
- (iv) (b) increase money supply in the economy.

151. Read the following text carefully. Answer the given questions on the basis of the same and common understanding:

On 30th September 2022, the Reserve Bank of India (RBI) raised Repo Rate for the fourth time in a row. The Monetary Policy Committee (MPC) decided to raise the policy rate by 50 basis points (1 basis point = $\frac{1}{100}$ th of a percent).

After this announcement, the new Repo rate stands at 5.9%, while the Reverse repo rate continues to stand at 3.35%.

Commercial banks borrow money from the Central Bank, when there is a shortage of funds. With the surge in the Repo rate, borrowings by general public will become costlier. This is because, as RBI hikes its Repo rate, it becomes costly for the banks to borrow short term funds from the Central Bank.

As a result, the banks hike the rate at which customers borrow money from them to compensate for the hike in the Repo rate. This happens because banks offer loans to retail consumers at an interest rate which is generally, directly proportional to the Repo rate.

The increase of 0.50 percent in Repo rate will lead to higher interest rates on loans for borrowers, implying that the Equated Monthly Installments (EMIs) for repaying the existing loans will also increase.

- (i) Define 'Repo Rate'.
- (ii) Outline the recent change made by the Monetary Policy Committee of Reserve Bank of India in the Repo rate.

- (iii) "Increase in Repo rate is an important tool used by Monetary Policy Committee to combat the situation of inflation in the Economy." Justify the given statement.
- (iv) State the meaning of reverse repo rate.
- (v) In order to bring down the rate of inflation outline and discuss the step taken by the Monetary Policy Committee of Reserve Bank of India.

Ans :

OD 2023

- (i) Repo Rate. It may be defined as the rate at which the Central Bank lends money to the commercial banks in the event of any shortfall of funds in the short-run.
- (ii) The Monetary Policy Committee decided to raise the policy rate by 50 basis points
(1 basis point = $\frac{1}{100}$ th of a percent).

The new Repo rate is now 5.9%.

- (iii) Repo rate is the rate of interest charged by Central Bank on loans given to commercial banks. During a situation of excess demand leading to inflation, the Central Bank raises the Repo rate which discourages commercial banks in borrowing from the Central Bank. Increase in Repo rate forces commercial banks to increase their own lending rates making credit costlier. As a result, the demand for loans falls discouraging investment. Also reduction in availability of credit helps in correcting the situation of excess demand and reducing inflationary gap.
- (iv) Reverse Repo Rate. It is the rate at which the Central bank of a country borrows money from the commercial banks.
Increase in repo rate encourages commercial banks to deposit funds with the Central bank reducing availability of funds with it. This, thus helps in curtailing money supply in the economy and vice-versa.
- (v) Steps taken in order to bring down the Rate of Inflation. During a situation of excess demand leading to inflation, the Central Bank raises the repo rate which discourages Commercial Banks in borrowing from the Central Bank. Increase in repo rate forces Commercial Banks to increase their own lending rates making credit costlier. As a result, the demand for loans falls discouraging investment. Also reduction in availability of credit helps in correcting the situation of excess demand and reducing inflationary gap.

CHAPTER 3

DETERMINATION OF INCOME AND EMPLOYMENT

SUMMARY

1. AGGREGATE DEMAND (AD)

It refers to the total value of final goods and services demanded in an economy in a year. It is the same as aggregate expenditure.

2. COMPONENTS OF AGGREGATE DEMAND

Aggregate Demand (AD) is the total demand for goods and services in an economy at a given price level and time. The components of aggregate demand are as follows :

- (i) **Private Final Consumption Expenditure (C)** : Expenditure incurred by the household on the purchase of goods and services.
- (ii) **Government final consumption expenditure (G)** : It refers to the expenditure incurred by the government on the purchase of goods and services.
- (iii) **Private Investment expenditure (I)** : It refers to the expenditure incurred by private firms on the purchase of capital goods such as plant and machinery.
- (iv) **Net Exports (X-M)** : It refers to the difference between export and import.

$$AD = C + I + (X - M)$$

In a two sector economy, $AD = C + I$

3. BEHAVIOR OF AGGREGATE DEMAND

Aggregate Demand represents the total expenditure in an economy at various levels of income. It shows the relationship between income and spending behavior :

- (i) There are two components of AD. Consumption demand and investment demand.
- (ii) Autonomous Consumption ($\bar{C}$) : Minimum level of consumption even when income is zero.
- (iii) Consumption increases with increase in income but not at the same rate.

- (iv) Slope of AD curve is positive which indicates that as income increases aggregate demand (or expenditure) also increases.

4. AGGREGATE SUPPLY

It refers to the total value of final goods and services in the economy in a year. It is the planned aggregate output in the economy. It is measured as the sum total of consumption (C) and savings (S). Aggregate supply is the same thing as National Income.

$$AS = C + S \text{ and}$$

$$Y \text{ (National Income)} = AS$$

$$Y = C + S$$

AS curve is a 45° line starting from the origin and every point on this line is equidistant from X & Y-axis.

5. CONSUMPTION FUNCTION (PROPENSITY TO CONSUME)

The relationship between consumption and income is called consumption function. It is also called as propensity to consume.

$$C = f(Y)$$

Equation of consumption function.

$$C = \bar{C} + b(Y)$$

6. RELATIONSHIP BETWEEN CONSUMPTION AND INCOME

The relationship between consumption and income explains how households allocate their income between consumption and savings. It is a key concept in understanding economic behavior.

- (i) As income increases, consumption also increases but not by the same proportion.
- (ii) Consumption can never be zero (even at zero level of income).
- (iii) Break even point when consumption is equal to income, i.e., $Y = C$
- (iv) Savings start after the break-even point.

7. TYPES OF PROPENSITY TO CONSUME

The propensity to consume refers to the proportion of income that households spend on consumption. It can be classified into two types based on income and consumption behavior.

7.1 Average Propensity to Consume (APC)

It is the ratio of total consumption to total income.

$$APC = \frac{C}{Y}$$

Here

APC > 1, before the break-even point

APC = 1, at break even point

APC < 1, beyond the break-even point

APC can never be zero as consumption is never zero.

7.2 Marginal Propensity to Consume (MPC)

It is the ratio of change in consumption to change in income.

$$MPC = \frac{\Delta C}{\Delta Y}$$

Here,

MPC = 1 (when entire additional income is consumed)

MPC = 0 (when entire additional income is saved)

However, MPC generally varies between 0 and 1 as additional income is neither entirely consumed nor entirely saved

8. SAVING FUNCTION (PROPENSITY TO SAVE)

It indicates the tendency of the households to save at a given level of income.

$$S = f(Y)$$

It is also called as propensity to save.

Equation of saving function:

$$S = -\bar{C} + (1 - b)Y$$

Where, S = Saving, $-\bar{C}$ = Amount of negative saving at zero income level, $(1 - b) = MPS$ and Y = Income

8.1 Relation between Saving and Income

The saving curve illustrates the relationship between income and saving, highlighting how households allocate income to savings as it increases.

- It slopes upwards indicating a direct relationship between saving and income.
- It starts from the negative side of the Y-axis implying negative savings at zero level of income.

- It is a straight line indicating constant slope of saving curve.

8.2 Types of Propensity to Save

The propensity to save refers to the proportion of income that households allocate to savings. It highlights the relationship between income and saving behavior :

- Average Propensity to Save (APS):** It is the ratio of total saving to total income.

$$APS = \frac{S}{Y}$$

- Marginal Propensity to Save (MPS):** It is the ratio of change in saving to a change in income.

$$MPS = \frac{\Delta S}{\Delta Y}$$

9. RELATIONSHIP BETWEEN APC AND APS

The sum of APC and APS is always equal to 1.

$$APC + APS = 1 \text{ or } APC = 1 - APS$$

$$\text{or } APS = 1 - APC$$

10. RELATIONSHIP BETWEEN MPC AND MPS

The sum of MPC and MPS is always equal to 1.

$$MPC + MPS = 1 \text{ or } MPS = 1 - MPC$$

$$\text{or } MPC = 1 - MPS$$

11. INVESTMENT

It means an addition to the existing stock of capital. There are two types of Investment:

- Induced Investment. Investment made with the motive of earning profit.
- Autonomous Investment. Investment which is independent of the level of income.

11.1 Determinants of Investment

Investment decisions are influenced by various factors that determine the willingness and ability of firms to invest in capital goods. These factors shape the overall level of investment in an economy.

- Marginal efficiency of investment or the expected rate of return.
- Rate of interest

12. EX-ANTE SAVING (INTENDED OR PLANNED SAVING)

Amount of saving which households plan to save at different levels of income in the economy.

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13. EX-ANTE INVESTMENT (PLANNED INVESTMENT)

Amount of investment which firms plan to invest at different levels of income in the economy.

14. EX-POST SAVING

It refers to actual saving in an economy during a year.

15. EX-POST INVESTMENT

It refers to actual investment in an economy during a year.

16. INVOLUNTARY UNEMPLOYMENT

It refers to a situation in which people are ready to work at prevailing wage rate, but do not find work.

17. FULL EMPLOYMENT

It refers to a situation when all able and willing persons at the given wage rate find a job.

18. EQUILIBRIUM LEVEL OF INCOME

The determination of equilibrium level of income and employment in the Keynesian theory depends on the level of AD and AS.

Equilibrium level of income and output is determined where:

(i) Aggregate Demand (AD) = Aggregate Supply (AS).

(ii) Planned Saving (S) = Planned Investment (I).

(iii) In case, when $AD > AS$ ($S < I$)

1. It means buyers are planning to buy more than what the sellers are planning to produce.
2. Inventory starts falling.
3. So the producers expand production.
4. Income level starts rising till $AD = AS$.

(iv) In case, when $AD < AS$ ($S > I$)

1. It means that buyers would be willing to buy less than what the producers are willing to produce.
2. Planned inventory rises.
3. So the firms reduce production till the economy is back in equilibrium, i.e., $AD = AS$.

19. FULL-EMPLOYMENT EQUILIBRIUM

It is that level of income at which AD equals AS at full employment.

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20. UNDER-EMPLOYMENT EQUILIBRIUM

It refers to a situation when AD becomes equal to AS, when people are not fully employed. This happens due to deficiency in AD.

21. INVESTMENT MULTIPLIER

It explains the relationship between increase in investment and the resultant increase in income. It is the ratio of change in income to change in investment.

$$K = \frac{\Delta Y}{\Delta I} \text{ or } K = \frac{1}{1 - MPC}$$

or
$$K = \frac{1}{MPS}$$

There is a direct relationship between K and MPC and inverse relationship between K and MPS.

21.1 Working of the Multiplier

This can be explained with the help of the following example which is based on the assumption, i.e., $\Delta I = ₹100$ crores and $MPC = 0.75$.

MULTIPLIER PROCESS

Round	Increase in Investment (ΔI)	Increase in Income (ΔY)	Increase in Consumption (ΔC) ($MPC = 0.75$)	Increase in Savings (ΔS)
I	100	100	$100 \times \frac{3}{4} = 75$	25
II	—	75	$75 \times \frac{3}{4} = 56.25$	18.75
III	—	56.25	$56.25 \times \frac{3}{4} = 42.19$	14.06
IV	—	42.19	$42.19 \times \frac{3}{4} = 31.64$	10.55
V	—	31.64	—	—
...	...	...	...	...
Total	100	400	300	100

Explanation:

- As per the table, an initial increase in investment of ₹100 crores increases income by the same amount in the first rounds.
- MPC being 0.75, they will spend or consume ₹75 crores ($\frac{3}{4}$ of ₹100 crore) on new consumption of goods. Spending on consumer goods by one will increase the income of the other by the same amount in the second round.
- This process continues with each round of income being 0.75 times ($\frac{3}{4}$ th) of the previous level.
- The resultant increase in income is multiple of initial increase in investment.

In this case,

$$\text{Multiplier } (K) = \frac{\Delta Y}{\Delta I} = \frac{400}{100} = 4$$

or
$$K = \frac{1}{1 - MPC}$$

$$K = \frac{1}{1 - 0.75} = 4$$

Minimum value of multiplier is 1 when MPC is also minimum i.e., 0. Maximum value of multiplier is ∞ , when MPC is 1.

22. DEFICIENT DEMAND

It refers to a situation where aggregate demand in the economy falls short of aggregate supply of goods and services at full employment. The deficiency or gap between AD and AS is called deflationary gap. The economy, in this case, attains under-employment equilibrium.

Causes:

- (i) Fall in levels of private consumption and investment expenditure.
- (ii) Cut in government expenditure.
- (iii) Rise in taxes.

Impact:

- (i) Fall in output and under-utilisation of factors.
- (ii) Fall in the level of employment.
- (iii) Fall in the price level in the economy.

Measures to correct deficient demand –

I. Fiscal measures

- (i) Increase in government expenditure.
- (ii) Reduction in taxes to increase disposable income.

II. Monetary measures

- (i) Reduction in legal reserve ratio (CRR and SLR).
- (ii) Reduction in Bank rate (Repo rate).
- (iii) Reduction in Reverse Repo Rate.
- (iv) In open market operations, central bank purchases securities from the market.
- (v) Reduction in margin requirement.
- (vi) Under selective credit controls, credit for speculative purposes is withdrawn.

23. EXCESS DEMAND

It is a situation, where the current aggregate demand is greater than the aggregate supply that is required to achieve full employment equilibrium. The gap by which the actual aggregate demand exceeds the level of aggregate supply required to establish the full employment equilibrium is called inflationary gap.

Causes:

- (i) Increase in private consumption and investment expenditure.
- (ii) Increase in government expenditure.
- (iii) Cut in taxes

(iv) Rise in exports

(v) Fall in imports

Impact:

- (i) Output remains constant but excess pressure on existing supply.
- (ii) Economy is already operating on full employment. So, there is no possibility of increase in employment.
- (iii) Price level rises.

Measures to correct excess demand –

I. Fiscal policy measures

- (i) Reducing the government expenditure
- (ii) Increase in taxes

II. Monetary policy measures

- (i) Increase in bank rate (Repo Rate).
- (ii) Increase in reverse repo rate.
- (iii) Increase in legal reserve ratio.
- (iv) Raising of margin requirement.
- (v) In open market operation Central bank sells the securities in the open market.

MULTIPLE CHOICE QUESTION

1. What does the term Aggregate Demand (AD) primarily represent in the context of an economy and how is it defined according to economic principles?

- (a) The total value of final goods and services produced in an economy in a year
- (b) The total value of final goods and services demanded in an economy in a year
- (c) The total savings made by households and firms in an economy
- (d) The total investment expenditure of private firms in an economy

Ans :

SQP 2024

- (b) The total value of final goods and services demanded in an economy in a year

Aggregate Demand refers to the total value of final goods and services demanded in an economy in a year, as mentioned in the text.

2. In a simplified two-sector economy, which formula is used to represent Aggregate Demand (AD) in terms of its components?

- (a) $AD = C + I + (X - M)$
- (b) $AD = C + I + G$
- (c) $AD = C + I$
- (d) $AD = C + S$

Ans :

COMP 2008

(c) $AD = C + I$

In a two-sector economy, AD includes only private final consumption expenditure (C) and private investment expenditure (I), as per the text.

3. What is meant by Autonomous Consumption and what role does it play in the aggregate demand of an economy?
- It refers to consumption that depends entirely on the income levels of households
 - It is the minimum level of consumption even when income is zero
 - It is the consumption expenditure that exceeds income at the break-even point
 - It refers to consumption that is proportional to savings

Ans :

DELHI 2010

(b) It is the minimum level of consumption even when income is zero

Autonomous Consumption is defined as the minimum level of consumption that occurs even when income is zero, as stated in the text.

4. What is the correct formula for calculating the Average Propensity to Consume (APC) and how is it interpreted?
- $APC = Y/C$
 - $APC = C/Y$
 - $APC = \frac{\Delta C}{\Delta Y}$
 - $APC = C \times Y$

Ans :

OD 2013

(b) $APC = C/Y$

APC is calculated as the ratio of total consumption to total income, $APC = C/Y$, as provided in the text.

5. At which specific point does the Average Propensity to Consume (APC) become equal to 1 and what does it signify about income and consumption?
- When savings are negative and below the break-even point
 - At the break-even point when income is equal to consumption
 - Beyond the break-even point when income exceeds consumption
 - When there is no income but autonomous consumption exists

Ans :

FOREIGN 2017

(b) At the break-even point when income is equal

to consumption

APC is equal to 1 at the break-even point, where consumption is equal to income ($Y=C$), as per the text.

6. How is the relationship between Marginal Propensity to Consume (MPC) and Marginal Propensity to Save (MPS) mathematically expressed in the economy?
- $MPC - MPS = 1$
 - $MPC + MPS = 1$
 - $PC \times MPS = 1$
 - $MPC \div MPS = 1$

Ans :

SQP 2021

(b) $MPC + MPS = 1$

The text mentions that the sum of MPC and MPS is always equal to 1.

7. What are the economic impacts of deficient demand and how does it affect overall output and employment in the economy?
- Rise in price level and full utilization of resources
 - Fall in output, under-utilization of factors and reduction in employment
 - Increase in employment and investment due to higher savings
 - Rise in exports and reduction in imports

Ans :

COMP 2023

(b) Fall in output, under-utilization of factors and reduction in employment

Deficient demand leads to a fall in output, under-utilization of factors and a reduction in employment, as per the text.

8. Which of the following fiscal policy measures is commonly implemented to address excess demand in an economy?
- Reduction in taxes and increase in government expenditure
 - Increase in government expenditure and reduction in CRR
 - Reduction in government expenditure and increase in taxes
 - Reduction in taxes and increase in disposable income

Ans :

DELHI 2011

(c) Reduction in government expenditure and increase in taxes

To correct excess demand, fiscal measures like reducing government expenditure and increasing taxes are used, as mentioned in the text.

9. What is the minimum possible value of the investment multiplier (K) and under what condition does this occur in the economy?

- (a) 0, when MPC is maximum
- (b) 1, when MPC is 0
- (c) Equal to MPC when additional income is entirely consumed
- (d) Equal to MPS when additional income is entirely saved

Ans :

OD 2005

- (b) 1, when MPC is 0

The minimum value of the multiplier is 1 when MPC is 0, as explained in the text.

10. What is the primary cause of involuntary unemployment and how is it defined in terms of aggregate demand?

- (a) Excess aggregate demand causing inflationary pressures
- (b) Low aggregate demand insufficient to provide jobs to willing workers
- (c) High levels of investment leading to overproduction
- (d) Increased savings leading to reduced consumption

Ans :

FOREIGN 2007

- (b) Low aggregate demand insufficient to provide jobs to willing workers

Involuntary unemployment occurs when aggregate demand is insufficient to provide jobs for all willing workers at the prevailing wage rate, as stated in the text.

11. What does the term “Full Employment Equilibrium” signify in the context of an economy?

- (a) A situation where all resources are utilized and aggregate demand equals aggregate supply at full employment
- (b) A condition where aggregate demand is greater than aggregate supply
- (c) A state where some resources remain unemployed due to excess demand
- (d) A scenario where planned savings exceed planned investments

Ans :

SQP 2003

- (a) A situation where all resources are utilized and aggregate demand equals aggregate supply at full employment

Full Employment Equilibrium occurs when aggregate demand equals aggregate supply and all able and willing persons are employed at the given wage rate, as per the text.

12. How does the economy react when aggregate demand (AD) exceeds aggregate supply (AS) at the full employment level?

- (a) Inventory levels fall, leading to an expansion in production
- (b) Producers reduce output to control excess demand
- (c) Price levels fall due to reduced demand for goods and services
- (d) Employment decreases as the economy operates below capacity

Ans :

COMP 2009

- (a) Inventory levels fall, leading to an expansion in production

When $AD > AS$, buyers plan to purchase more than producers are willing to supply, causing inventories to fall, leading to increased production until equilibrium is restored, as stated in the text.

13. What is the significance of the break-even point in the relationship between income and consumption?

- (a) It is the point where income exceeds consumption, leading to savings
- (b) It represents a situation where consumption is equal to income
- (c) It is the stage where savings are negative due to autonomous consumption
- (d) It indicates the point where additional income is entirely consumed

Ans :

DELHI 2016

- (b) It represents a situation where consumption is equal to income

The break-even point occurs when income equals consumption ($Y=C$), as per the text.

14. What fiscal measures can be taken to address deficient demand in an economy?

- (a) Reducing government expenditure and increasing taxes
- (b) Increasing government expenditure and reducing taxes
- (c) Increasing bank rate and legal reserve ratios
- (d) Selling securities in the open market

Ans :

OD 2001

- (b) Increasing government expenditure and reducing taxes

To correct deficient demand, fiscal measures like increasing government expenditure and reducing taxes to boost disposable income are implemented, as mentioned in the text.

15. What happens to the multiplier (K) when the Marginal Propensity to Consume (MPC) reaches its maximum value of 1?

- (a) The multiplier is zero because no additional income is saved
- (b) The multiplier is infinite as all additional income is consumed
- (c) The multiplier remains constant regardless of MPC
- (d) The multiplier decreases because additional income is saved

Ans :

FOREIGN 2006

- (b) The multiplier is infinite as all additional income is consumed

When MPC is 1, all additional income is consumed, leading to an infinite multiplier effect, as explained in the text.

16. Aggregate Supply (AS) is the total value of final goods and services in the economy in a year and it is measured as the sum of _____ and _____.

- (a) Consumption, Investment
- (b) Consumption, Savings
- (c) Investment, Savings
- (d) Consumption, Exports

Ans :

SQP 2012

- (b) Consumption, Savings

Aggregate Supply is calculated as $AS = C + S$, where C is consumption and S is savings, as mentioned in the text.

17. The _____ is the ratio of total consumption to total income and it can never be zero as consumption is never zero.

- (a) Marginal Propensity to Save (MPS)
- (b) Average Propensity to Consume (APC)
- (c) Marginal Propensity to Consume (MPC)
- (d) Average Propensity to Save (APS)

Ans :

COMP 2015

- (b) Average Propensity to Consume (APC)

The Average Propensity to Consume (APC) is $APC = Y/C$ and it cannot be zero since there is always some level of consumption, as explained in the text.

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18. In the Keynesian theory, equilibrium level of income is determined when _____ equals _____.

- (a) Aggregate Supply (AS), Planned Investment (I)
- (b) Aggregate Demand (AD), Aggregate Supply (AS)
- (c) Aggregate Demand (AD), Consumption (C)
- (d) Aggregate Supply (AS), Net Exports (X-M)

Ans :

DELHI 2019

- (b) Aggregate Demand (AD), Aggregate Supply (AS)

Equilibrium level of income occurs where $AD = AS$, which balances the economy, as per the text.

19. The _____ curve starts from the negative side of the Y-axis, indicating dissaving at zero income levels.

- (a) Aggregate Supply (AS)
- (b) Saving (S)
- (c) Aggregate Demand (AD)
- (d) Investment (I)

Ans :

OD 2020

- (b) Saving (S)

The saving curve begins on the negative side of the Y-axis, reflecting negative savings or dissaving at zero income, as stated in the text.

20. The slope of the Aggregate Demand (AD) curve is _____, indicating that as income increases, aggregate demand also increases.

- (a) Negative
- (b) Zero
- (c) Positive
- (d) Constant

Ans :

FOREIGN 2002

- (c) Positive

The AD curve has a positive slope, showing that aggregate demand increases with an increase in income, as mentioned in the text.

21. At the break-even point, _____ is equal to _____ and savings are zero.

- (a) Consumption, Income
- (b) Income, Savings
- (c) Savings, Investment
- (d) Aggregate Demand, Aggregate Supply

Ans :

SQP 2014

- (a) Consumption, Income

At the break-even point, income equals consumption ($Y = C$) and there are no savings, as explained in the text.

- 22.** Deficient demand in an economy leads to a _____ gap, where aggregate demand falls short of aggregate supply at full employment.

(a) Deflationary
(b) Inflationary
(c) Savings
(d) Multiplier

Ans :

COMP 2018

(a) Deflationary

Deficient demand causes a deflationary gap, where AD is less than AS at full employment, as mentioned in the text.

- 23.** The sum of Average Propensity to Consume (APC) and Average Propensity to Save (APS) is always equal to _____.

(a) 0
(b) 1
(c) MPC
(d) MPS

Ans :

DELHI 2022

(b) 1

The text states that $APC + APS = 1$, indicating that total consumption and savings account for the entire income.

- 24.** The ratio between total income and total consumption is referred to as _____.

(a) MPC
(b) APC
(c) slope of consumption curve
(d) effective demand

Ans :

COMP 2015

(b) APC

- 25.** Identify the incorrect statement from the following:

(a) APS can never be negative.
(b) the sum of APS and APC cannot be greater or less than one.
(c) consumption does not increase in the same proportion as income.
(d) planned expenditure on net exports is a part of aggregate demand.

Ans :

DELHI 2019

(a) APS can never be negative.

- 26.** Consumption curve starting from y-axis indicates:

(a) positive consumption at zero income level
(b) negative savings at zero income level
(c) zero consumption at zero income level
(d) both (a) and (b)

Ans :

OD 2020

(d) both (a) and (b)

- 27.** At equilibrium level, when $C = 1000 + 0.5Y$ and $I = ₹100$ crore, then income will be:

(a) ₹2000 crore
(b) ₹2100 crore
(c) ₹2200 crore
(d) ₹2300 crore

Ans :

FOREIGN 2002

(c) ₹2200 crore

As we know, $Y = C + I$

$$Y = 1000 + 0.5Y + 100$$

$$Y - 0.5Y = 1100$$

$$0.5Y = 1100$$

$$\text{Income Level (Y)} = \frac{1100}{0.5} = 2,200 \text{ crore}$$

- 28.** At break even point:

(a) APS is equal to 1
(b) income is equal to consumption
(c) both (a) and (b)
(d) neither (a) nor (b)

Ans :

SQP 2014

(c) both (a) and (b)

- 29.** Investment Multiplier is the ratio of change in _____ due to an change in _____.

(a) national income, investment
(b) saving, investment
(c) investment, national income
(d) consumption, national income

Ans :

COMP 2018

(a) national income, investment

- 30.** From the following, identify the cause of deficient demand:

(a) decrease in government expenditure
(b) decrease in propensity to consume
(c) decrease in net exports
(d) all of the above

Ans :

DELHI 2022

(d) all of the above

- 31.** _____ policy is the policy adopted by the Central Bank of an economy in the direction of credit control or money supply.

(a) fiscal
(b) revenue
(c) expenditure
(d) monetary

Ans :

SQP 2004

(d) monetary

32. From the following, identify the qualitative instrument of credit control.

- (a) bank rate
- (b) margin requirement
- (c) open market operations
- (d) legal reserve requirements

Ans :

(b) margin requirement

33. If MPC is greater than MPS, the value of multiplier will be:

- (a) greater than 2
- (b) less than 2
- (c) equal to 2
- (d) equal to 5

Ans :

COMP 2008

(a) greater than 2

34. _____ refers to the addition to the stock of physical capital and change in Inventory of a firm in an economy:

- (a) consumption expenditure
- (b) investment expenditure
- (c) savings
- (d) multiplier

Ans :

DELHI 2010

(b) investment expenditure

35. Excess demand in an economy leads to:

- (a) decrease in output, income, employment and price level
- (b) rise in the price level but no change in output and employment
- (c) increase in output, income and employment but no change in the price level
- (d) increase in output, income, employment and price level

Ans :

OD 2013

(b) rise in the price level but no change in output and employment

36. From the following, identify the fiscal policy measure which can be adopted as a remedy to tackle deflationary gap:

- (a) increase in government expenditure
- (b) increase in taxes
- (c) increase in prices
- (d) decrease in government expenditure

Ans :

FOREIGN 2017

(a) increase in government expenditure

37. If planned savings is more than planned investment, then:

- (a) national income is likely to rise
- (b) national income is likely to fall
- (c) no change in national income
- (d) none of the above

Ans :

SQP 2021

(b) national income is likely to fall

38. _____ refers to the gap by which actual aggregate demand exceeds the aggregate supply required to establish full employment equilibrium:

- (a) deflationary gap
- (b) deficient demand
- (c) inflationary gap
- (d) excess demand

Ans :

DELHI 2023

(c) inflationary gap

39. The value of multiplier is:

- (a) $1/\text{MPC}$
- (b) $1/\text{MPS}$
- (c) $1/1 - \text{MPS}$
- (d) $1/\text{MPC} - 1$

Ans :

DELHI 2015

(b) $1/\text{MPS}$

40. If $\text{MPC} = 1$, the value of multiplier is:

- (a) 0
- (b) 1
- (c) Between 0 and 1
- (d) Infinity

Ans :

FOREIGN 2015

(d) Infinity

41. If the marginal propensity to consume is greater than marginal propensity to save, the value of the multiplier will be

- (a) greater than 2
- (b) less than 2
- (c) equal to 2
- (d) equal to 5

Ans :

DELHI 2017

(a) greater than 2

- 42.** Aggregate demand can be increased by:
 (a) increasing bank rate
 (b) selling government securities by Reserve Bank of India
 (c) increasing cash reserve ratio
 (d) none of the above

Ans :

COMP 2011

- (d) none of the above

- 43.** If national income increases by ₹1000 crore due to an additional investment of ₹400 crore. What will be the value of multiplier?

- (a) 1.5
 (b) 2.5
 (c) 4
 (d) 5

Ans :

DELHI 2018

- (b) 2.5

- 44.** If value of investment multiplier is 4, what will be the value of marginal propensity to save?

- (a) 0.75
 (b) 0.25
 (c) 0.50
 (d) 0

Ans :

DELHI 2018

- (b) 0.25

- 45.** Suppose in a hypothetical economy, the income rises from ₹5,000 crore to ₹6,000 crore. As a result, the consumption expenditure rises from ₹4,000 crore to ₹4,600 crore. Marginal propensity to consume in such a case would be _____.

- (a) 0.8
 (b) 0.4
 (c) 0.2
 (d) 0.6

Ans :

OD 2005

- (d) 0.6

- 46.** In an economy, as a result of increase in investment by ₹1000 crore, national income rises by ₹1000 crore. What will be the marginal propensity to consume?

- (a) 0.9
 (b) 0.8
 (c) 0.1
 (d) 0.2

Ans :

SQP 2019

- (b) 0.8

- 47.** What will be change in income if $MPC = 0.8$ and change in investment is ₹1000 crore?

- (a) ₹8,000 crore
 (b) ₹5,000 crore
 (c) ₹3,000 crore
 (d) ₹2,000 crore

Ans :

COMP 2019

- (b) ₹5,000 crore

- 48.** If the value of Average Propensity to Consume (APC) is 0.8 and National Income is ₹4,000 crore, the value of savings will be _____.

- (a) ₹100 crore
 (b) ₹200 crore
 (c) ₹800 crore
 (d) ₹500 crore

Ans :

DELHI 2020

- (c) ₹800 crore

- 49.** If income rises from ₹50,000 to ₹60,000, consumption increases from ₹40,000 to ₹48,000. In this situation, what will be the value of Marginal Propensity to Consume (MPC)?

- (a) 0.80
 (b) 0.20
 (c) 0.10
 (d) 0.90

Ans :

OD 2020

- (a) 0.80

- 50.** If the value of Average Propensity to Save (APS) is 0.2 and National Income is ₹4,000 crore, then consumption will be _____.

- (a) ₹4,000 crore
 (b) ₹3,200 crore
 (c) ₹3,800 crore
 (d) ₹2,600 crore

Ans :

FOREIGN 2020

- (b) ₹3,200 crore

- 51.** In case of an underemployment equilibrium, which of the following alternative is not true?

- (a) Aggregate demand is equal to Aggregate supply.
 (b) There exists excess production capacity in the economy.
 (c) Resources are not fully and efficiently utilised.
 (d) Resources are fully and efficiently utilised.

Ans :

SQP 2020

- (d) Resources are fully and efficiently utilised.

52. If Marginal Propensity to Save (MPS) is 0.25 and initial change in investment is ₹250 crore, then the final change in income would be _____.

(a) ₹1,000 crore
(b) ₹1,200 crore
(c) ₹500 crore
(d) ₹3500 crore

Ans :

COMP 2020

(a) ₹1,000 crore

53. If a linear consumption curve takes a parallel shift downwards, the value of investment multiplier will _____.

(a) fall
(b) rise
(c) be doubled
(d) not change

Ans :

DELHI 2023

(b) rise

54. If in an economy, the Investment Multiplier is 4 and Autonomous Consumption is ₹30 crore, the relevant consumption function would be _____.

(a) $C = 30 + 0.75Y$
(b) $C = -30 + 0.25Y$
(c) $C = 30 + 0.25Y$
(d) $C = -30 - 0.25Y$

Ans :

OD 2023

(a) $C = 30 + 0.75Y$

55. If increase in National Income is equal to increase in Savings, the value of Marginal Propensity to Consume would be _____.

(a) equal to unit
(b) greater than one
(c) less than one
(d) equal to zero

Ans :

DELHI 2023

(d) equal to zero

56. In an economy, the value of Marginal Propensity to Save (MPS) is 0.25, what will be the value of increase in income, if investments increased by ₹200 crore?

(a) ₹200 crore
(b) ₹150 crore
(c) ₹1,000 crore
(d) ₹800 crore

Ans :

SQP 2023

(d) ₹800 crore

57. _____ refers to that level of Aggregate Demand, which can be met by the corresponding supply in the economy.

(a) Autonomous Consumption
(b) Effective Demand
(c) Excess Demand
(d) Deficient Demand

Ans :

OD 2023

(b) Effective Demand

58. If a straight line consumption function makes a positive intercept at the Y-axis, it implies that the Marginal Propensity to Consume _____ and Average Propensity to Consume _____ as the level of income rises.

(a) remains constant, rises
(b) falls, falls
(c) rises, rises
(d) remains constant, falls

Ans :

OD 2020

(d) remains constant, falls

59. Arrange the following in the correct sequential order, if the government of a nation is trying to curtail the situation of inflationary gap:

(i) Decrease in disposable income
(ii) Increase in taxes
(iii) Decrease in Aggregate Demand

Alternatives:

(a) (i), (ii), (iii)
(b) (iii), (ii), (i)
(c) (ii), (iii), (i)
(d) (ii), (i), (iii)

Ans :

OD 2007

(d) (ii), (i), (iii)

60. In a hypothetical economy, if entire additional income is consumed, the value of investment multiplier would be _____.

(a) One (1)
(b) Zero (0)
(c) Between zero (0) and one (1)
(d) Infinity (∞)

Ans :

OD 2017

(d) Infinity (∞)

61. If in an economy the initial deposits are ₹4,000 crore and Reserve Ratio (RR) is 10%. The value of total deposit created would be ₹ _____ crore.

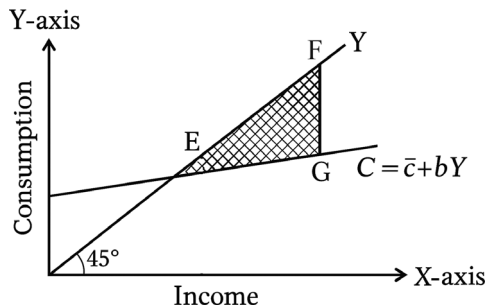
- (a) 4,000
- (b) 40,000
- (c) 2,000
- (d) 20,000

Ans :

OD 2002

- (b) 40,000

62. Identify, what does the shaded area (ΔEFG), in the given figure indicate?



- I. Consumption > Income
- II. Saving = Zero (0)
- III. Consumption < Income
- IV. Saving < Zero (0)

Alternatives :

- (a) I and II
- (b) II and III
- (c) III and IV
- (d) I and IV

Ans :

COMP 2020

- (b) II and III

ASSERTION AND REASON

63. **Assertion :** APC can never be zero.

Reason : At the break even point, consumption is equal to income.

- (a) Both Assertion and Reason are true and Reason is the correct explanation of Assertion.
- (b) Both Assertion and Reason are true and Reason is not the correct explanation of Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

DELHI 2007

- (b) Assertion and reason both are correct statements but reason is not correct explanation for assertion. Consumption can never be zero at any level of income.

64. **Assertion :** Involuntary unemployment exists at full employment level.

Reason : The term full employment implies that demand for labour is equal to its supply.

- (a) Both Assertion and Reason are true and Reason is the correct explanation of Assertion.
- (b) Both Assertion and Reason are true and Reason is not the correct explanation of Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

OD 2003

- (d) Assertion is false but Reason is true.

Full employment implies absence of involuntary unemployment.

65. **Assertion :** There exists a direct relationship between MPC and the value of multiplier.

Reason : Higher MPC implies a greater proportion of income being spent on consumption leading to higher value of multiplier.

- (a) Both Assertion and Reason are true and Reason is the correct explanation of Assertion.
- (b) Both Assertion and Reason are true and Reason is not the correct explanation of Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

FOREIGN 2009

- (a) Assertion and reason both are correct statements and reason is correct explanation for assertion.

66. **Assertion :** When planned savings is more than planned investment, inventory rises above the desired level.

Reason : The unwanted increase in inventory can be cleared by reducing production.

- (a) Both Assertion and Reason are true and Reason is the correct explanation of Assertion.
- (b) Both Assertion and Reason are true and Reason is not the correct explanation of Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

SQP 2016

- (b) Assertion and reason both are correct statements but reason is not correct explanation for assertion. More savings implies less consumption by households.

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67. Assertion : While determining equilibrium level of income in an economy, investment expenditure is assumed to be autonomous.

Reason : Investments are deemed necessary for national well being and are made even when levels of disposable income are insufficient or zero as they are made by the government keeping in mind public welfare.

- (a) Both Assertion and Reason are true and Reason is the correct explanation of Assertion.
- (b) Both Assertion and Reason are true and Reason is not the correct explanation of Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

COMP 2001

(a) Assertion and reason both are correct statements and reason is correct explanation for assertion.

68. Assertion : In the situation of deficient demand, aggregate expenditure falls short of planned investment at the full employment level.

Reason : Decrease in investment expenditure leads to a fall in aggregate demand leading to deficient demand.

- (a) Both Assertion and Reason are true and Reason is the correct explanation of Assertion.
- (b) Both Assertion and Reason are true and Reason is not the correct explanation of Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

DELHI 2006

(d) Assertion is false but Reason is true. Deficient demand arises when planned aggregate expenditure falls short of aggregate supply at the full employment level.

69. Assertion : Changes in taxes by the government directly influence the level of aggregate demand in the economy.

Reason : Decrease in taxes help control the situation of excess demand and vice versa.

- (a) Both Assertion and Reason are true and Reason is the correct explanation of Assertion.
- (b) Both Assertion and Reason are true and Reason is not the correct explanation of Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

OD 2012

(c) Assertion is true but Reason is false. Taxation rates can be increased during excess demand to control the disposable income and reduce the level of aggregate demand in the economy.

70. Assertion : During deficient demand, the Central Bank decreases the Reverse Repo Rate.

Reason : Reverse Repo Rate is the rate of interest at which Commercial Banks can deposit their surplus funds with the Central Bank.

- (a) Both Assertion and Reason are true and Reason is the correct explanation of Assertion.
- (b) Both Assertion and Reason are true and Reason is not the correct explanation of Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

FOREIGN 2015

(b) Assertion and reason both are correct statements but reason is not correct explanation for assertion.

Decrease in Reverse Repo Rate discourages the commercial banks to deposit their surplus funds with the Central Bank thereby raising their credit creating power.

71. Assertion : The savings curve has a negative intercept on the y-axis of the same magnitude as the positive intercept of the consumption curve.

Reason : After the break-even point, savings is negative.

- (a) Both Assertion and Reason are true and Reason is the correct explanation of Assertion.
- (b) Both Assertion and Reason are true and Reason is not the correct explanation of Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

SQP 2019

(c) Assertion is true but Reason is false. The negative intercept of the savings curve on the y-axis indicates negative savings equal to the amount of autonomous consumption.

Assertion : The maximum value of the multiplier is one.

Reason : When the economy consumes the whole of its additional income, then the value of MPC will be equal to 1 implying a continuous increase in the consumption expenditure.

- (a) Both Assertion and Reason are true and Reason is the correct explanation of Assertion.
- (b) Both Assertion and Reason are true and Reason is not the correct explanation of Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

COMP 2020

(d) Assertion is false but Reason is true.
The maximum value of consumption multiplier is infinity.

- 73. Assertion :** At the break-even level of income, the value of Average Propensity to Consume (APC) is zero.

Reason : Sum of Average Propensity to Consume (APC) and Average Propensity to Save (APS) is always equal to one.

- (a) Both Assertion and Reason are true and Reason is the correct explanation of Assertion.
- (b) Both Assertion and Reason are true and Reason is not the correct explanation of Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

DELHI 2023

- 74. Assertion :** Full employment refers to, absence of involuntary unemployment.

Reason : Under full employment situation, all willing and able bodied people get employment at prevailing wage rate.

- (a) Both Assertion and Reason are true and Reason is the correct explanation of Assertion.
- (b) Both Assertion and Reason are true and Reason is not the correct explanation of Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

OD 2023

(a) Assertion and reason both are correct statements and reason is correct explanation for assertion.

STATEMENT BASED QUESTIONS

- 75.** Consider the following statements about Aggregate Supply (AS):

1. Aggregate Supply refers to the total value of final goods and services in the economy in a year.
2. Aggregate Supply is measured as the sum of consumption and investment.
3. AS is the same as National Income and is represented as $AS = C + S$.
4. The AS curve is a 45° line starting from the origin.

Which of the above statements are correct?

- (a) 1 and 3 only
- (b) 1, 3 and 4 only
- (c) 2, 3 and 4 only
- (d) 1, 2 and 3 only

Ans :

SQP 2004

(b) 1, 3 and 4 only
Statements 1, 3 and 4 are correct. Aggregate Supply is measured as $AS = C + S$, the same as National Income and the AS curve is a 45° line. Statement 2 is incorrect because AS is not measured as the sum of consumption and investment.

- 76.** Consider the following statements about Marginal Propensity to Consume (MPC):

1. MPC is the ratio of change in consumption to change in income.
2. $MPC = 1$ when the entire additional income is consumed.
3. $MPC = 0$ when the entire additional income is saved.
4. $MPC + MPS$ is always equal to 2.

Which of the above statements are correct?

- (a) 1, 2 and 3 only
- (b) 1, 2 and 4 only
- (c) 2, 3 and 4 only
- (d) 1 and 4 only

Ans :

COMP 2008

(a) 1, 2 and 3 only
Statements 1, 2 and 3 are correct. MPC is the ratio of $\Delta C / \Delta Y$ and $MPC = 1$ when all income is consumed, $MPC = 0$ when all income is saved. Statement 4 is incorrect; $MPC + MPS = 1$, not 2.

- 77.** Consider the following statements about the Investment Multiplier (K):

1. It is the ratio of change in income to change in investment.
2. The multiplier has a minimum value of 1 when MPC is 0.
3. The multiplier has no maximum value, even if $MPC = 1$.

4. An increase in MPC leads to an increase in the value of the multiplier.

Which of the above statements are correct?

- (a) 1, 2 and 4 only
- (b) 1 and 3 only
- (c) 1, 2, 3 and 4
- (d) 2 and 4 only

Ans :

DELHI 2010

- (a) 1, 2 and 4 only

Statements 1, 2 and 4 are correct. The multiplier is $K = \Delta Y / \Delta I$, has a minimum value of 1 when $MPC=0$ and increases as MPC increases. Statement 3 is incorrect; the multiplier can theoretically approach infinity but not have "no maximum."

- 78.** Consider the following statements about the causes of deficient demand:

- 1. A fall in the level of private consumption and investment expenditure.
- 2. A reduction in government expenditure.
- 3. A rise in taxes that reduces disposable income.
- 4. A rise in exports and fall in imports.

Which of the above statements are correct?

- (a) 1 and 4 only
- (b) 1, 2 and 3 only
- (c) 2, 3 and 4 only
- (d) 1, 3 and 4 only

Ans :

OD 2013

- (b) 1, 2 and 3 only

Statements 1, 2 and 3 are correct. Deficient demand is caused by reduced private and government expenditure and increased taxes. Statement 4 is incorrect; a rise in exports and fall in imports would increase aggregate demand, not cause deficient demand.

- 79.** Consider the following statements about types of investment:

- 1. Induced investment is made with the motive of earning profit.
- 2. Autonomous investment is independent of the level of income.
- 3. Induced investment depends on income and profit expectations.
- 4. Autonomous investment changes directly with income levels.

Which of the above statements are correct?

- (a) 1, 2 and 3 only
- (b) 1 and 4 only
- (c) 2, 3 and 4 only
- (d) 1, 3 and 4 only

Ans :

FOREIGN 2017

- (a) 1, 2 and 3 only

Statements 1, 2 and 3 are correct. Induced investment depends on profit motives and income, while autonomous investment is independent of income. Statement 4 is incorrect as autonomous investment does not change with income levels.

- 80.** Consider the following statements about the Saving Function:

- 1. The saving curve starts from the negative side of the Y-axis.
- 2. It indicates dissaving at zero income levels.
- 3. The saving curve has a constant slope, representing the Marginal Propensity to Save (MPS).
- 4. Savings are equal to zero at the break-even point.

Which of the above statements are correct?

- (a) 1, 2 and 3 only
- (b) 1, 3 and 4 only
- (c) 1, 2, 3 and 4
- (d) 2 and 4 only

Ans :

SQP 2021

- (c) 1, 2, 3 and 4

All the statements are correct. The saving curve starts negatively, representing dissaving at zero income. Its constant slope reflects MPS and savings become zero at the break-even point.

- 81.** Consider the following statements about Excess Demand:

- 1. It refers to a situation where current AD exceeds AS at full employment.
- 2. Excess demand creates an inflationary gap.
- 3. Output remains constant, but pressure on existing supply increases.
- 4. Excess demand leads to under-utilization of factors of production.

Which of the above statements are correct?

- (a) 1, 2 and 3 only
- (b) 1 and 4 only
- (c) 2, 3 and 4 only
- (d) 1, 3 and 4 only

Ans :

COMP 2023

- (a) 1, 2 and 3 only

Statements 1, 2 and 3 are correct. Excess demand creates an inflationary gap, keeping output constant but increasing pressure on existing resources. Statement 4 is incorrect as excess demand leads to over-utilization, not under-utilization, of resources.

82. Consider the following statements about the measures to correct deficient demand:

1. Increasing government expenditure is a fiscal measure to boost demand.
2. Reducing taxes increases disposable income, stimulating demand.
3. Reducing the bank rate encourages borrowing and increases spending.
4. Selling securities in the open market is an effective monetary measure to address deficient demand.

Which of the above statements are correct?

- (a) 1 and 4 only
- (b) 1, 3 and 4 only
- (c) 2, 3 and 4 only
- (d) 1, 2 and 3 only

Ans :

DELHI 2011

- (d) 1, 2 and 3 only

Statements 1, 2 and 3 are correct. Fiscal measures like increasing government expenditure and reducing taxes, along with reducing the bank rate, boost demand. Statement 4 is incorrect; selling securities reduces money supply, which is counterproductive to correcting deficient demand.

83. Statement 1: Ex-post savings and Ex-post investments are equal at all levels of income.

Statement 2: Under the effective demand principle, the equilibrium output is equal to ex-ante Aggregate Demand (AD).

- (a) Statement 1 is true & Statement 2 is false.
- (b) Statement 1 is false & Statement 2 is true.
- (c) Both statements 1 & 2 are true.
- (d) Both statements 1 & 2 are false.

Ans :

OD 2024

- (c) Both statements 1 & 2 are true.

84. Statement 1: The induced consumption shows, the direct relation between consumption and income.

Statement 2: With a certain increase in income, induced consumption also increases.

- (a) Statement 1 is true & Statement 2 is false.
- (b) Statement 1 is false & Statement 2 is true.
- (c) Both statements 1 & 2 are true.
- (d) Both statements 1 & 2 are false.

Ans :

FOREIGN 2023

- (c) Both statements 1 & 2 are true.

85. Statement 1: In a two sector economy, consumption expenditure and investment expenditure are the two components of Aggregate Demand.

Statement 2: Aggregate demand curve always starts from point of origin with positive slope.

- (a) Statement 1 is true & Statement 2 is false.
- (b) Statement 1 is false & Statement 2 is true.
- (c) Both statements 1 & 2 are true.
- (d) Both statements 1 & 2 are false.

Ans :

SQP 2023

- (a) Statement 1 is true & Statement 2 is false

86. Statement 1: Consumption and Savings are the components of National output of an economy. **Statement 2:** Higher level of Income often leads to lower savings.

- (a) Statement 1 is true & Statement 2 is false.
- (b) Statement 1 is false & Statement 2 is true.
- (c) Both statements 1 & 2 are true.
- (d) Both statements 1 & 2 are false.

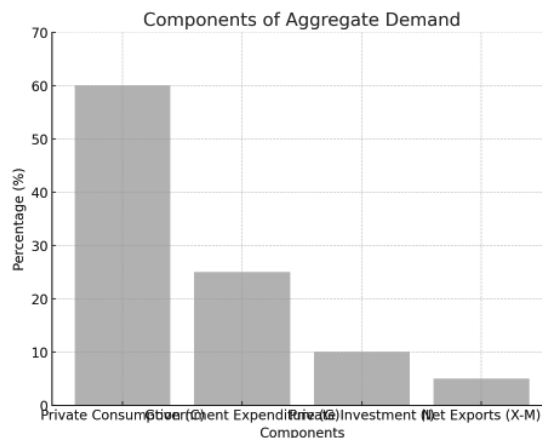
Ans :

DELHI 2008

- (a) Statement 1 is true & Statement 2 is false

GRAPH BASED QUESTIONS

87. The bar graph above shows the percentage contribution of different components to Aggregate Demand (AD) in an economy.



Based on the bar graph, which component contributes the highest percentage to Aggregate Demand (AD)?

- (a) Private Consumption (C)
- (b) Government Expenditure (G)
- (c) Private Investment (I)
- (d) Net Exports (X-M)

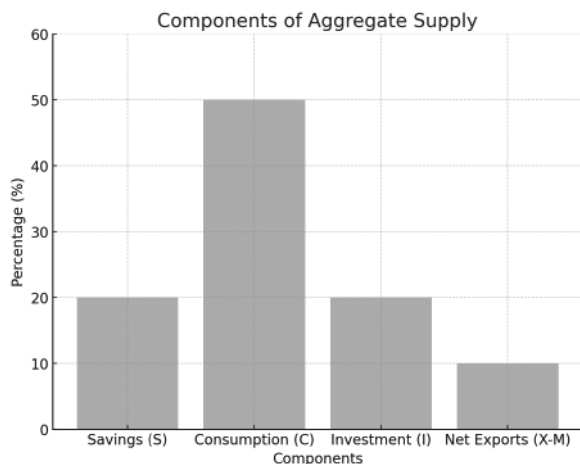
Ans :

OD 2001

(a) Private Consumption (C)

The bar graph shows that Private Consumption (C) contributes 60% to Aggregate Demand, which is the highest percentage among all components.

88. The bar graph above shows the percentage contribution of different components to Aggregate Supply (AS) in an economy.



Which two components contribute equally to Aggregate Supply (AS) according to the graph?

- (a) Savings (S) and Consumption (C)
- (b) Savings (S) and Investment (I)
- (c) Investment (I) and Net Exports (X-M)
- (d) Consumption (C) and Net Exports (X-M)

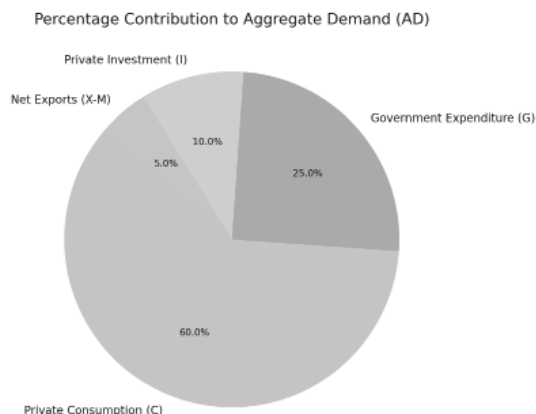
Ans :

FOREIGN 2006

(b) Savings (S) and Investment (I)

The bar graph indicates that Savings (S) and Investment (I) both contribute 20% to Aggregate Supply, making their contributions equal.

89. The pie chart above shows the percentage contribution of different components to Aggregate Demand (AD) in an economy.



Which component has the second-largest contribution to Aggregate Demand (AD) based on the pie chart?

- (a) Private Consumption (C)
- (b) Government Expenditure (G)
- (c) Private Investment (I)
- (d) Net Exports (X-M)

Ans :

SQP 2012

(b) Government Expenditure (G)

The pie chart shows that Government Expenditure (G) contributes 25%, making it the second-largest component after Private Consumption (C), which contributes 60%.

PASSAGE BASED QUESTION

90. Aggregate Supply (AS) is the total value of final goods and services produced in an economy in a year. It is measured as the sum of consumption (C) and savings (S), represented as $AS = C + S$. Aggregate Supply (AS) is calculated as the sum of:

- (a) Consumption (C) and Savings (S)
- (b) Consumption (C) and Investment (I)
- (c) Consumption (C) and Net Exports (X-M)
- (d) Savings (S) and Investment (I)

Ans :

OD 2005

(a) Consumption (C) and Savings (S)

AS is measured as $AS = C + S$, as per the passage.

91. The break-even point occurs when income equals consumption, $(Y = C)$ and savings are zero. What happens at the break-even point in the economy?

- (a) Income equals consumption and savings are zero
- (b) Consumption exceeds income and savings are negative
- (c) Income exceeds consumption and savings are positive
- (d) Income equals savings and consumption is zero

Ans :

FOREIGN 2007

(a) Income equals consumption and savings are zero

At the break-even point, income equals consumption and no savings occur, as described in the passage.

ONE MARK QUESTIONS

92. Autonomous Consumption refers to the minimum level of consumption even when income is zero.

Autonomous Consumption is defined as:

- (a) The minimum level of consumption when income is zero
- (b) Consumption that increases proportionately with income
- (c) Savings that occur at zero income level
- (d) The total consumption in an economy at full employment

Ans :

SQP 2003

- (a) The minimum level of consumption when income is zero

Autonomous Consumption is the consumption that occurs even without any income, as stated in the passage.

93. The slope of the Aggregate Demand (AD) curve is positive, indicating that as income increases, aggregate demand also increases.

The positive slope of the AD curve indicates:

- (a) AD decreases as income increases
- (b) AD remains constant regardless of income
- (c) AD increases as income increases
- (d) AD decreases as savings increase

Ans :

COMP 2009

- (c) AD increases as income increases

A positive slope means that AD rises with income, as mentioned in the passage.

94. Average Propensity to Consume (APC) is the ratio of total consumption to total income, expressed as $APC = \frac{C}{Y}$.

Average Propensity to Consume (APC) is calculated as:

- (a) $\frac{\Delta C}{\Delta Y}$
- (b) $\frac{C}{Y}$
- (c) $\frac{Y}{C}$
- (d) $\frac{C+S}{Y}$

Ans :

DELHI 2016

- (b) $\frac{C}{Y}$

APC is the ratio of total consumption to total income, represented as $APC = \frac{C}{Y}$, as per the passage.

95. State the meaning of 'unintended accumulation of inventories'.

Ans :

OD 2024

Unintended inventory accumulation occurs when firms experience an increase in unsold stock due to an unexpected drop in sales.

96. Define Effective Demand Principle.

Ans :

OD 2024

The effective demand principle represents the level of aggregate demand that matches the corresponding aggregate supply in the economy.

97. Give the meaning of ex-ante savings.

Ans :

OD 2010

Planned savings are also referred to as ex-ante savings.

98. What is ex-ante aggregate demand?

Ans :

OD 2010

Ex-ante aggregate demand refers to the planned expenditure on consumption and investment that people are willing to make.

99. Give the meaning of aggregate demand.

Ans :

FOREIGN 2010

Aggregate demand is the total expenditure on consumption and investment goods.

100. What is 'aggregate demand' in macro-economics?

Ans :

OD 2015

Aggregate demand refers to the total value of final goods and services which all the sectors of an economy are planning to buy at a given level of income during a period of one accounting year.

101. Define aggregate supply.

Ans :

SQP 2010

Aggregate supply is the total value of final goods and services planned for production by all economic units over a specific period.

102. What is 'aggregate supply' in macro-economics?

Ans :

COMP 2015

Aggregate supply is the monetary value of the total quantity of final goods and services

$$= \frac{\frac{\Delta Y}{\Delta Y}}{\frac{\Delta Y}{\Delta Y} - \frac{\Delta C}{\Delta Y}} \quad \dots [\text{Dividing by } \Delta Y]$$

$$= \frac{1}{1 - \text{MPC}}$$

Thus, $K = \frac{1}{1 - \text{MPC}}$

The value of the multiplier can be determined by the size of MPC as MPC and investment multiplier are directly related. This implies that higher the value of MPC, greater would be the value of the multiplier and vice-versa.

- 143.** What is the relationship between (a) Marginal propensity to save and marginal propensity to consume. (b) Marginal propensity to save and investment multiplier.

Ans :

CD 2015

- (a) Marginal Propensity to Consume (MPC) may be defined as that proportion of income which is consumed. In other words, it is the ratio of change in consumption to change in income. Marginal Propensity to Save (MPS) is that part of income which is saved. In other words, it is equal to the ratio of change in saving to change in income. The relationship between MPC and MPS becomes clear by looking at the equations given below:

$$\Delta Y = \Delta C + \Delta S$$

$$\frac{\Delta Y}{\Delta Y} = \frac{\Delta C}{\Delta Y} + \frac{\Delta S}{\Delta Y} \quad \text{Dividing by } \Delta Y$$

or $1 = \text{MPC} + \text{MPS}$

$$\text{MPS} = 1 - \text{MPC}$$

- (b) Marginal Propensity to Save (MPS) and Investment Multiplier (K):

Since Investment Multiplier

$$K = \frac{1}{1 - \text{MPC}}$$

We know that, $\text{MPS} = 1 - \text{MPC}$

$$\text{Investment Multiplier} = \frac{1}{\text{MPS}}$$

Investment multiplier and MPS are inversely related. Higher the value of MPS, lower will be the value of multiplier and vice-versa.

- 144.** The value of marginal propensity to consume is double the value of marginal propensity to save. Find the value of multiplier.

Ans :

SQP 2000

We know that, $\text{MPC} + \text{MPS} = 1$

Given: MPC is double the value of MPS

$$\text{MPC} = 2 \text{ MPS}$$

Substituting this in the above equation, we get

$$2\text{MPS} + \text{MPS} = 1$$

$$3 \text{ MPS} = 1$$

$$\text{MPS} = \frac{1}{3}$$

Now multiplier, $K = \frac{1}{\frac{1}{3}} = 3$

Value of multiplier is 3.

- 145.** State whether the following statement is true or false. Give reasons for your answer:

When marginal propensity to consume is greater than marginal propensity to save, the value of investment multiplier will be greater than 5.

Ans :

DELHI 2010

Not always true. For example, when MPC is 0.6, 0.7 and 0.8 ($> \text{MPS}$), the value of K is not more than 5. It is greater than 5 only when MPS is 0.1.

- (i) For example, $\text{MPC} > \text{MPS}$, but $K < 5$

$$\text{MPC} = 0.6 \quad \text{MPS} = 0.4$$

$$K = \frac{10}{4} = 2.5$$

- (ii) For example, $\text{MPC} > \text{MPS}$, but $K > 5$

$$\text{MPC} = 0.9 \quad \text{MPS} = 0.1$$

$$K = \frac{1}{0.1} = 10$$

- 146.** Giving reasons, state whether the following statements are true or false:

- (i) If the ratio of marginal propensity to consume and marginal propensity to save is 4 : 1, the value of investment multiplier will be 4.
(ii) Sum of marginal propensity to save and marginal propensity to consume is always equal to 1.

Ans :

OD 2010

- (i) False. As, $\text{MPC} + \text{MPS} = 1$

When $\text{MPC} : \text{MPS}$ is 4 : 1

$\text{MPC} = 0.8$ and $\text{MPS} = 0.2$

Since, $K = \frac{1}{\text{MPS}}$

Multiplier $(K) = \frac{1}{0.2} = 5$

- (ii) True

As, $\Delta Y = \Delta C + \Delta S$

Dividing both sides by, ΔY

$$\frac{\Delta Y}{\Delta Y} = \frac{\Delta C}{\Delta Y} + \frac{\Delta S}{\Delta Y}$$

$$1 = \text{MPC} + \text{MPS}$$

As, $\frac{\Delta C}{\Delta Y}$ is MPC and $\frac{\Delta S}{\Delta Y} = \text{MPS}$

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TWO MARK QUESTIONS

- 115.** What is 'excess demand' and deficit defined in macroeconomics?

Ans :

OD 2019, 2014

Excess demand arises when aggregate demand surpasses aggregate supply at the full employment level in an economy. Conversely, deficient demand occurs when aggregate demand is lower than aggregate supply, even at full employment. Both scenarios highlight imbalances between demand and supply, impacting overall economic stability.

- 116.** Give the meaning of Full employment.

Ans :

FOREIGN 2008

Full employment signifies a state where everyone willing and able to work at prevailing wage rates finds employment without difficulty. It represents a scenario where there are no unemployed individuals seeking jobs.

- 117.** State whether the following statement is true or false. Give reason for your answer.

Inflationary gap exists when aggregate demand is greater than aggregate supply.

Ans :

OD 2016

Correct. An inflationary gap occurs when, at full employment, aggregate demand exceeds aggregate supply, leading to upward pressure on prices.

- 118.** Distinguish between consumption function equation and saving function equation.

Ans :

DELHI 2012

Consumption Function Equation:

$$C = \bar{C} + MPC(Y)$$

where C = Total Consumption

$\bar{C}$ = Autonomous Consumption

MPC = Marginal Propensity to Consume

Y = National Income

Saving Function Equation:

$$S = -\bar{C} + MPS(Y)$$

where S = Total Saving

$\bar{C}$ = Autonomous Consumption

MPS = Marginal Propensity to Save

Y = National Income

- 119.** Explain the meaning of average propensity to consume. What is its relation with average propensity to save?

Ans :

COMP 2014

Average propensity to consume refers to the ratio of consumption expenditure to the corresponding level of income.

$$APC = \frac{\text{Consumption (C)}}{\text{Income (Y)}}$$

We know that $Y = C + S$

Dividing both sides by Y , we get

$$\frac{Y}{Y} = \frac{C}{Y} + \frac{S}{Y}$$

$$1 = APC + APS$$

as $APC = \frac{C}{Y}$ and $APS = \frac{S}{Y}$

or $APC = 1 - APS$

because income is either consumed or saved.

- 120.** Giving reasons, state whether the following statements are true or false:

- (i) When marginal propensity to consume is zero, the value of investment multiplier will also be zero
- (ii) Value of average propensity to save can never be less than zero.

Ans :

OD 2010

- (i) The statement is false because when the marginal propensity to consume (MPC) is 0, the value of the investment multiplier is 1, not 0, as the multiplier formula is $\frac{1}{1 - MPC}$
- (ii) The statement is false because the average propensity to save (APS) can be less than 0 if consumption exceeds income, indicating negative savings.

- 121.** Giving reasons, state whether the following statements are true or false:

- (i) Average propensity to save is always greater than zero.
- (ii) Value of investment multiplier varies between zero and infinity.

Ans :

DELHI 2010

- (i) The statement is correct. APS can indeed be negative when APC exceeds 1, meaning consumption surpasses income, resulting in negative savings.
- (ii) The statement is partially true. If MPC is 0, the multiplier equals 1. However, if MPC is 1,

the multiplier theoretically becomes infinite, not undefined.

122. Give the meaning of:

- (i) involuntary unemployment and
- (ii) inflationary gap.

Ans :

FOREIGN 2012

- (i) Involuntary Unemployment: It refers to a situation where individuals in the labor force, willing and able to work at the prevailing wage rate, are unable to find jobs due to the economy's failure to create sufficient employment opportunities. This unemployment is against their will.
- (ii) Inflationary Gap: It occurs when aggregate demand exceeds aggregate supply at the full employment level ($AD > AS$). The difference between aggregate demand and aggregate supply is termed the inflationary gap.

123. Explain the role of taxation in reducing excess demand.

Ans :

DELHI 2016

Excess demand arises when aggregate demand surpasses aggregate supply ($AD > AS$) at full employment. To curb excess demand, the government can implement fiscal policy measures like increasing taxes on households and producers. This reduces their purchasing power, leading to a decrease in aggregate demand.

124. What would be the likely impact of the 'make in India' campaign launched by the government of India, on the aggregate supply of goods and services?

Ans :

OD 2021

Increased foreign investment and improved resource mobilization would enhance the economy's productive capacity, leading to a potential rise in the aggregate supply of goods and services in the future.

125. Is Aggregate Demand the same as Market Demand? Justify your answer.

Ans :

FOREIGN 2018

Market demand pertains to microeconomics, representing the total demand for a specific commodity in the market. In contrast, aggregate demand belongs to macroeconomics and refers to the total demand for all goods and services within an economy. Thus, market demand and aggregate

demand are distinct concepts.

126. Does increase in aggregate demand always lead to increase in price level?

Ans :

SQP 2022

Before full employment, an increase in aggregate demand (AD) leads to a proportional rise in aggregate supply (AS), keeping the price level constant. However, beyond full employment, any further increase in AD does not result in a corresponding increase in AS, causing the price level to rise.

127. What will be the value of multiplier if the entire additional income is saved?

Ans :

Additional income = ΔY

Additional consumption ΔC

In this situation ΔC will be zero as additional income is saved not consume.

We know, $MPC = \frac{\Delta C}{\Delta Y}$

$$MPC = 0$$

Now, Multiplier, $K = \frac{1}{1 - MPC}$

$$K = \frac{1}{1 - 0} = 1$$

THREE MARK QUESTIONS

128. Suppose, the Indian Government decides to boost public investments with a defence project of ₹40,000 crore.

Explain the likely impacts of the given situation on the Income, Employment and Output of the economy, assuming all other factors as constant.

Ans :

OD 2024

Government expenditure on activities like defense or maintaining law and order can help address deficient demand. Increasing government spending injects funds into the circular flow of income, releasing liquidity to counter deflation. Such expenditure boosts aggregate demand, which in turn raises income, employment and output levels in the economy, steering it toward full employment and economic stability.

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- 129.** Define effective demand. Discuss how, effective demand can be restored, if ex-ante Aggregate Demand (AD) is more than ex-ante Aggregate Supply (AS).

or

“In an economy, Aggregate Demand (AD) is more than Aggregate Supply (AS).” Elaborate the possible impacts of the same, on the level of output, income and employment.

Ans :

OD 2024, 2020

When ex-ante aggregate demand exceeds aggregate supply, buyers plan to purchase more goods and services than producers intend to provide, causing inventory levels to fall below the desired amount. To restore inventory, producers increase production, leading to higher employment, output and income. This process continues, with rising levels of production and income, until aggregate demand equals aggregate supply and the economy achieves equilibrium.

- 130.** “With the objective to correct deflation, Reserve Bank of India may decrease the Bank rate.” Discuss the rationale behind the step taken by the Reserve Bank of India (RBI).

Ans :

OD 2024

Bank Rate is the interest rate the Central Bank charges commercial banks for providing credit. There is an inverse relationship between the bank rate and the demand for credit. When the bank rate increases, borrowing becomes costlier, reducing the demand for credit.

To correct deflation, the RBI may lower the bank rate. This reduces borrowing costs, increasing the demand for credit. Higher credit availability boosts aggregate demand in the economy, addressing the deficient demand and helping stabilize economic output.

- 131.** Define effective demand. Discuss how effective demand can be restored if ex-ante saving is less than ex-ante investment.

Ans :

COMP 2020

Effective demand is the output level where aggregate demand equals aggregate supply, ensuring full resource employment. Excess ex-ante aggregate demand over supply indicates that buyers plan to purchase more than producers plan to supply, reducing inventory below desired levels. Producers then increase production to restore inventory, raising employment, output and

income levels. These adjustments continue until aggregate demand matches aggregate supply, achieving economic equilibrium. This process aligns the economy's production with market demand, ensuring stability at full employment.

- 132.** Explain the changes that take place when Aggregate Demand and Aggregate Supply are not equal.

Ans :

DELHI 2016

- (i) When $AD > AS$, buyers plan to purchase more than producers intend to supply, causing inventory levels to fall below the desired level. To restore inventories, producers increase production, which raises income levels. This upward adjustment continues until aggregate demand equals aggregate supply, restoring equilibrium.
- (ii) When $AD < AS$, buyers plan to purchase less than what producers plan to supply, leading to an inventory buildup above the desired level. Producers respond by reducing production and laying off workers, lowering income levels. This downward adjustment persists until aggregate demand matches aggregate supply, achieving equilibrium.

- 133.** Explain the distinction between ex-ante measures and ex-post measures.

Ans :

(2014 COD)

Ex-ante measures refer to planned or desired values, while ex-post measures indicate actual or realized values. These terms are commonly used for savings and investment. Ex-ante savings represent the savings individuals or entities plan to make during a year and ex-ante investment refers to the planned investment for the same period. In contrast, ex-post savings and ex-post investment reflect the actual savings and investment that occur in the economy over the year.

- 134.** Define aggregate demand. What are its components?

Ans :

OD 2014, 2013

Aggregate demand is the total planned expenditure on final goods and services by all sectors of the economy at a given income level during a specific period. Its components include:

- (i) Private Consumption Expenditure (C): The planned spending by households on final consumer goods and services.

producers are willing to supply in an economy during a given time period.

- 103.** State whether the following statement is true or false. Give reason for your answer:

Inventories accumulate when planned investment is less than planned saving.

Ans : OD 2016

True. When planned investment is less than planned savings, aggregate demand falls short of aggregate supply, causing inventories to accumulate.

- 104.** Give the meaning of Autonomous consumption.

Ans : OD 2015

Autonomous consumption is the expenditure on basic needs at zero income, while autonomous investment, independent of income, is influenced by non-income factors.

- 105.** Define average propensity to consume.

Ans : DELHI 2012

The ratio of total consumption expenditure (C) to total income (Y) is called Average Propensity to Consume (APC).

In short, $APC = \frac{C}{Y}$

where, C = Consumption expenditure;

Y = Total Income

- 106.** Define marginal propensity to consume.

Ans : OD 2014

MPC is the proportion of change in consumption expenditure to 'change in income':

In short, $MPC = \frac{\Delta C}{\Delta Y}$

where ΔC = Change in Consumption

ΔY = Change in Income

- 107.** How is the value of marginal propensity to save calculated?

Ans : OD 2012

Marginal Propensity to Save is the ratio of the change in saving to the change in income, calculated by dividing the change in saving by the change in income.

Marginal Propensity to Save (MPS) = $\frac{\Delta S}{\Delta Y}$

where, ΔS = Change in Savings;

ΔY = Change in Income

- 108.** Can the value of MPC and MPS be negative? Why?

Ans : OD 2018

Both consumption and savings have positive or direct relationships with income and both are functions of income. Therefore, MPS and MPC can never be negative.

- 109.** If the value of average propensity to consume is given as 0.75, the value of average propensity to save would be _____.

Ans : OD 2018

As we know, $APS = 1 - APC$

$APS = 1 - 0.75 = 0.25$

- 110.** What can be the minimum value of investment multiplier?

Ans : OD 2012

The investment multiplier's minimum value is 1.

- 111.** State whether the following statement is true or false. Give reason for your answer.

Average propensity to save can be negative.

Ans : OD 2016

True. Average Propensity to Save (APS) can be negative when consumption exceeds income, typically at income levels below the break-even point.

- 112.** What is involuntary unemployment?

Ans : DELHI 2014

Involuntary unemployment refers to the portion of the labor force willing to work but unable to find jobs at the prevailing wage rate.

- 113.** Define inflationary gap.

Ans : OD 2014

An inflationary gap is the excess of actual aggregate demand over the aggregate supply needed for full employment equilibrium.

- 114.** Define deflationary gap.

Ans : OD 2014

A deflationary gap is the shortfall of actual aggregate demand compared to the aggregate supply needed for full employment equilibrium.

Relationship between MPS and MPC. Sum of MPC and MPS is always equal to 1.

$$MPS + MPC = 1 \text{ or, } 1 - MPC = MPS$$

or $1 - MPS = MPC$

- 139.** Distinguish between marginal propensity to consume and average propensity to consume. Give a numerical example.

Ans :

DELHI 2016

The differences between Average Propensity to Consume (APC) and Marginal Propensity to Consume (MPC) are:

(i) Definition:

- APC measures the proportion of total consumption expenditure to total income, i.e., $APC = \frac{C}{Y}$.
- MPC measures the proportion of change in consumption to the change in income, i.e., $MPC = \frac{\Delta C}{\Delta Y}$

(ii) Behavior with Income Increase: Both APC and MPC decrease as income rises, but MPC declines more rapidly.

(iii) Example:

- Initial income $Y = ₹100$ crore; consumption $C = ₹80$ crore.

$$APC = \frac{80}{100} = 0.8$$

- Income rises to ₹150 crore, consumption rises to ₹90 crore.

$$MPC = \frac{90 - 80}{150 - 100} = \frac{10}{50} = 0.2$$

- 140.** Which of the following cannot have a negative value? Give reasons.

- Average propensity to save.
- Marginal propensity to save.

Ans :

OD 2015

(i) Average Propensity to Save:

$$APS = \frac{\text{Saving}(S)}{\text{Income}(Y)}$$

Average Propensity to Save (APS): APS can be negative or less than one. It becomes negative when income is below the break-even point (where consumption equals income) because the economy experiences dissaving (consumption exceeds income).

(ii) Marginal Propensity to Save (MPS): MPS, defined as $MPS = \frac{\Delta S}{\Delta Y}$, cannot be negative and ranges between 0 and 1.

- When all additional income is spent, $\Delta S = 0$, so $MPS = 0$ $\Delta S = 0$
- When all additional income is saved, $\Delta C = 0$

- 141.** Explain the meaning of investment multiplier. What can be its minimum and maximum value?

Ans :

OD 2014

Investment multiplier is the ratio of increase in national income (ΔY) due to an increase in investment (ΔI)

$$\text{Multiplier, } K = \frac{\Delta Y}{\Delta I} \text{ or } K = \frac{1}{1 - MPC}$$

Maximum value of multiplier. The maximum value of multiplier is infinity when the value of MPC is 1. $MPC = 1$ indicates that the economy decides to consume the whole of its additional income.

We know that,

$$K = \frac{1}{1 - MPC}$$

When, $MPC = 1$,

$$\text{then } K = \frac{1}{1 - 0} = \frac{1}{0} = \infty$$

Minimum value of multiplier. The minimum value of multiplier is 1 (one) when the value of MPC is zero $MPC = 0$ indicates that the economy decides to save the whole of its additional income.

$$K = \frac{1}{1 - MPC}$$

$$\text{When, } MPC = 0, \text{ then } K = \frac{1}{1 - 0} = \frac{1}{1} = 1$$

- 142.** Define Investment Multiplier. How is it related to marginal propensity to consume?

Ans :

DELHI 2018

Investment multiplier is defined as the ratio of change in income (ΔY) to change in investment (ΔI). It explains how many times income increases as a result of an increase in investment.

Algebraically, it is expressed as : $K = \frac{\Delta Y}{\Delta I}$

The relationship between multiplier and marginal propensity to consume (MPC) can be expressed as:

$$\text{Multiplier, } K = \frac{1}{1 - MPC}$$

where [MPC is the proportion of additional income that an individual consumes, i.e., $\frac{\Delta C}{\Delta Y}$

$$K = \frac{\Delta Y}{\Delta I} = \frac{\Delta Y}{\Delta Y - \Delta C} \quad \Delta Y = \Delta C + \Delta I$$

- 151.** Distinguish between inflationary gap and deflationary gap.

Ans :

OD 2015

Difference between Inflationary gap and Deflationary gap

	Basic	Inflationary gap	Deflationary gap
1.	Meaning	It is the amount by which the actual aggregate demand exceeds the aggregate supply at the full employment level.	It is the amount by which the actual aggregate demand falls short of aggregate supply at the level of full employment.
2.	Leads to	Inflationary gap causes a rise in price level which is called inflation.	Deflationary gap causes a decline in output, income and employment along with persistent fall in prices.
3.	Result of	Inflationary gap is the result of a situation of excess demand in the economy.	Deflationary gap is the result of a situation of deficient demand in the economy.

- 152.** Give the meaning of aggregate demand and full employment.

Ans :

OD 2015

Aggregate Demand (AD): Aggregate Demand represents the total planned expenditure on final goods and services by all sectors of the economy at a given income level over a specific period. It reflects the economy's planned aggregate expenditure.

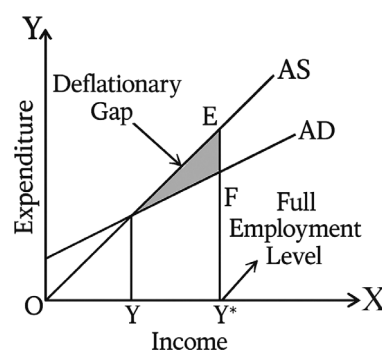
Full Employment: Full employment is a condition where all individuals willing and able to work at the prevailing wage rate can find jobs without significant difficulty. It implies a situation where there are no unemployed job seekers.

- 153.** Explain the meaning and implications of deflationary gap.

Ans :

(2011 COD)

When aggregate demand (AD) equals aggregate supply (AS) at a level below full employment, the economy experiences deficient demand. This occurs when AD is insufficient to generate output that provides employment to all willing workers. The shortfall of AD relative to AS at the full employment output level creates a deflationary gap. This gap, represented as the amount by which AD (EF) falls short at the full employment level, illustrates the economy's underutilized resources and unemployment.

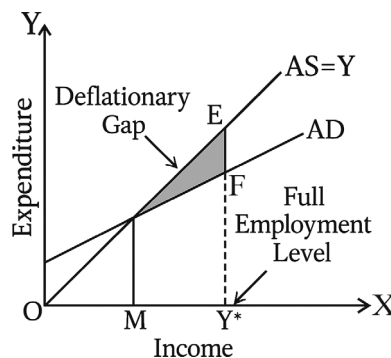


- 154.** In an economy aggregate demand is less than aggregate supply. Explain the changes that will take place in this economy.

Ans :

OD 2011

If equilibrium is established before the full employment level of output, it is a situation where aggregate demand is less than aggregate supply. The gap between the two is deflationary gap as shown by EF in the adjacent diagram.



This gap can be rectified by increasing the level of aggregate demand. In this case autonomous investment needs to be increased. This situation can be exhibited with the help of a given diagram.

Therefore, $MPC + MPS = 1$. (Hence proved)

- 147.** Distinguish between marginal propensity to consume and marginal propensity to save, with the help of numerical examples.

Ans :

OD 2012

Propensity to consume is the ratio of change in consumption over change in income.

$$\text{In short, } MPC = \frac{\Delta C}{\Delta Y}$$

Propensity to save is the ratio of change in saving to change in income.

$$\text{In short, } MPS = \frac{\Delta S}{\Delta Y}$$

Here $MPC + MPS = 1$

This shows the inverse relationship between MPC and MPS as the income either may be consumed or saved. MPC and MPS are shown in the table:

Y	C	ΔC	$MPC = \frac{\Delta C}{\Delta Y}$	S	ΔS	$MPS = \frac{\Delta S}{\Delta Y}$
0	50	—	—	— 50	—	—
100	100	50	0.5	0	50	0.5
200	150	50	0.5	50	50	0.5
300	200	50	0.5	100	50	0.5
400	250	50	0.5	150	50	0.5
500	300	50	0.5	200	50	0.5

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- 148.** Distinguish between average propensity to consume and average propensity to save. What is the relation between the two?

Ans :

OD 2017

Difference between APC and APS

	Basic	Average Propensity to Consume (APC)	Average Propensity to Save (APS)
1.	Meaning	It refers to the ratio of consumption expenditure to the corresponding level of income.	It refers to the proportion of total income which is saved.
2.	Formula	$APC = \frac{\text{Consumption (C)}}{\text{Income (Y)}}$	$APS = \frac{\text{Saving (S)}}{\text{Income (Y)}}$

3.	Value	APC can be greater than one when consumption is more than income.	APS can never be greater than one. This implies that it is always less than one because only a part of income is saved.
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Relation between APC and APS. Out of a rupee of income, either one can spend on consumption or save or partly do both.

$$APC + APS = 1 \quad \text{or} \quad APC = 1 - APS$$

$$\text{or} \quad APS = 1 - APC$$

- 149.** 'Excess demand creates greater opportunities of employment in the economy.' Defend or refute the given statement with valid explanation.

Ans :

OD 2022

Excess demand occurs when aggregate demand exceeds aggregate supply at the full employment level of output in the economy. It represents the surplus of planned expenditure over the full employment output value. This situation is undesirable as it does not increase aggregate supply since the economy is already at full employment. Additionally, employment levels remain unchanged because the economy is operating at full employment equilibrium, with no involuntary unemployment.

- 150.** Distinguish between voluntary unemployment and involuntary unemployment. What is the significance of this distinction?

Ans :

OD 2011

Voluntary unemployment occurs when individuals choose not to accept jobs at the prevailing wage rate, while involuntary unemployment arises when capable individuals willing to work cannot find jobs at the given wage rate, leaving them unemployed against their will.

This distinction highlights economic gaps:

- Involuntary unemployment signals a deflationary gap, where output can be increased to the full employment level by stimulating demand.
- Voluntary unemployment reflects conditions where output cannot be increased, indicating constraints unrelated to demand.

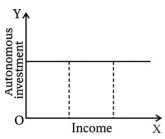
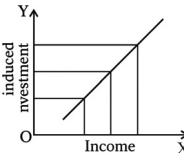
- (ii) Investment Expenditure (I): Planned spending by producers on new capital goods.
- (iii) Government Expenditure (G): Planned spending by the government on providing free services to the public.
- (iv) Net Exports (X): Planned net spending by foreigners on the country's goods and services.

135. Distinguish between autonomous investment and induced investment.

Ans :

OD 2014

Difference between Autonomous Investment and Induced Investment

	Basic	Autonomous Investment	Induced Investment
1.	Meaning	It refers to the investment which is not affected by changes in the level of income and is not induced solely by profit motive.	It refers to the investment which depends on the profit expectations and is directly influenced by income level.
2.	Motive	It is done for social welfare.	It is driven by profit motive.
3.	Investment curve	Its curve is parallel to X-axis as it is income inelastic. 	Its curve slopes upwards as it is income elastic. 

136. Explain the relationship between average propensity to consume and average propensity to save. Which of these can have a negative value and when?

Ans :

OD 2011

Average Propensity to Consume (APC) is the ratio of total consumption expenditure to total income.

$$APC = \frac{C}{Y}$$

Average Propensity to Save (APS) is the ratio of

total savings to total income. In short,

$$APS = \frac{S}{Y}$$

The sum of APC and APS is always equal to unity, i.e., $APC + APS = 1$, because income is either consumed or saved.

Also, since $Y = C + S$, APC can never be negative but APS can be negative when autonomous consumption

($\bar{C}$ > Marginal Propensity to Save (MPS)).

137. Which of the two, average propensity to consume or average propensity to save, can be negative and why?

Ans :

COMP 2019

Average Propensity to Consume (APC) is the ratio of total consumption to total income, while Average Propensity to Save (APS) is the ratio of total savings to total income. Since income is either consumed or saved, the sum of APC and APS equals one. APC is never negative, but APS can be negative when savings are negative. This occurs if consumption exceeds income, such as when autonomous consumption is higher than the Marginal Propensity to Save (MPS).

138. What is the difference between marginal propensity to consume and marginal propensity to save? What is the relation between the two?

Ans :

OD 2017

Difference between MPC and MPS

	Basic	Marginal Propensity to Consume (MPC)	Marginal Propensity to Save (MPS)
1.	Meaning	It is defined as the ratio of change in consumption expenditure to change in income.	It is the ratio of the change in savings to a change in income.
2.	Formula	$MPC = \frac{\Delta C}{\Delta Y}$	$MPS = \frac{\Delta S}{\Delta Y}$
3.	Slope	MPC represent the slope of consumption function.	It represents the slope of savings function.

- 155.** Give the meaning of (i) Cash Reserve Ratio, (ii) Bank Rate and (iii) Open Market Operations.

Ans :

COMP 2002

- (i) Cash Reserve Ratio (CRR): The proportion of deposits that commercial banks are required to keep as reserves with the central bank.
- (ii) Bank Rate: The interest rate charged by the central bank on loans provided to commercial banks.
- (iii) Open Market Operations (OMO): The buying and selling of securities by the central bank in the open market, involving transactions with commercial banks to regulate money supply.

- 156.** “With the objective to correct deflation, Reserve Bank of India may decrease Repo-rate.” Discuss the rationale behind the step taken by the Reserve Bank of India (RBI).

Ans :

OD 2020

Repo Rate is the interest rate at which the Central Bank lends money to commercial banks. To address deflation, the Central Bank reduces the repo rate, prompting commercial banks to lower their lending rates. This makes credit cheaper and encourages firms to borrow more for investment purposes. The increased investment demand raises aggregate demand, helping to eliminate deficient demand and stabilize the economy, countering deflationary conditions.

- 157.** What is the role of the following monetary measures in solving the problem of deficient demand?
- (i) Open Market Operations
 - (ii) Change in Reserve Ratio
 - (iii) Statutory Liquidity Ratio

Ans :

DELHI 2004

To address deficient demand, central and commercial banks can take the following measures to increase credit availability:

- (i) Open Market Operations: The central bank should purchase securities from commercial banks, increasing their cash reserves, which enhances their capacity to lend.
- (ii) Change in Reserve Ratio: The central bank should lower the Cash Reserve Ratio (CRR), improving commercial banks' liquidity and enabling them to offer more loans.
- (iii) Statutory Liquidity Ratio (SLR): Reducing the SLR improves commercial banks' liquidity, allowing them to extend additional

credit to borrowers.

These steps collectively boost the money supply and aggregate demand.

- 158.** How will the following monetary measures will be useful in correcting the situation of excess demand:

- (i) Bank rate
- (ii) Open market operations
- (iii) Change in legal ratio.

Ans :

DELHI 2006

To address excess demand, monetary tools can be applied to reduce aggregate demand and align it with aggregate supply:

- (i) Bank Rate: The central bank should raise the bank rate, increasing borrowing costs and reducing credit demand. This decrease in credit demand negatively impacts aggregate demand.
- (ii) Open Market Operations: The central bank should sell securities in the open market, purchased by commercial banks. This reduces their liquidity, limiting their capacity to extend credit, thereby curbing aggregate demand.
- (iii) Change in Legal Ratio: The legal reserve ratio, including the Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR), should be increased. Higher reserve requirements reduce the cash available to commercial banks, restricting their ability to create credit and lowering aggregate demand.

- 159.** Explain how controlling money supply is helpful in reducing excess demand.

Ans :

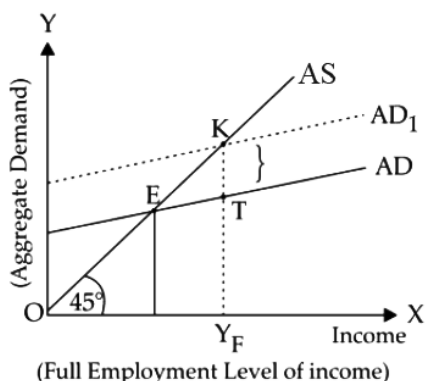
OD 2016

Excess demand arises when aggregate demand exceeds aggregate supply ($AD > AS$) at the full employment level in the economy. To manage this, the central bank regulates the money supply by controlling the credit creation by commercial banks. Credit creation during excess demand can be restrained through the following measures:

- Increasing the bank rate or repo rate;
- Selling government securities in the open market to absorb liquidity from the economy;
- Raising the Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR);
- Increasing the margin requirement.

A reduced money supply limits the purchasing power of individuals, thereby curbing their demand for goods and services.

- 160.** In the given figure, what does the gap 'KT' represent? State any two fiscal measures to correct the situation.



Ans :

FOREIGN 2008

In the figure, the gap KT represents the inflationary gap, which is the excess of actual aggregate demand over aggregate supply at the full employment level. It quantifies the extent by which aggregate demand surpasses output at full employment, serving as a measure of excess demand.

To address the inflationary gap, the government can use fiscal measures (budgetary tools). Two key measures are:

- Taxes:** The government increases taxes, particularly on high-income earners, to reduce their purchasing power. This decrease in disposable income helps lower aggregate demand, making taxation an effective tool to counter excess demand or inflationary gaps.
- Expenditure:** By reducing its expenditure on areas like health, education, law and order and subsidies, the government directly decreases aggregate demand in the economy, helping to rectify the inflationary gap.

- 161.** Explain the concept of Inflationary Gap. Explain the role of Repo Rate in reducing this gap.

Ans :

OD 2015

Inflationary Gap: When the equilibrium level of income is achieved beyond the full employment stage, it creates a situation of excess demand. Excess demand arises when aggregate demand (AD) exceeds aggregate supply (AS) at the full employment output level. This excess demand results in an inflationary gap, where prices rise because output cannot increase to match the higher demand.

Repo Rate: The repo rate is the interest rate

at which the Central Bank lends money to commercial banks. To address excess demand and inflation, the Central Bank raises the repo rate. This discourages commercial banks from borrowing, prompting them to increase their lending rates. Costlier credit reduces the demand for loans, discourages investment and curtails the availability of credit. These measures help correct excess demand and reduce the inflationary gap.

- 162.** Explain the situation of deficient demand in an economy. Also explain the role of Repo Rate in correcting this.

Ans :

OD 2016

Deficient Demand: This occurs when aggregate demand falls short of the aggregate supply of goods and services at full employment, leaving the economy's resources underutilized and resulting in under-employment.

Impacts of Deficient Demand:

- It causes a decline in income, output and employment levels.
- A prolonged fall in demand may lead to a state of economic depression.

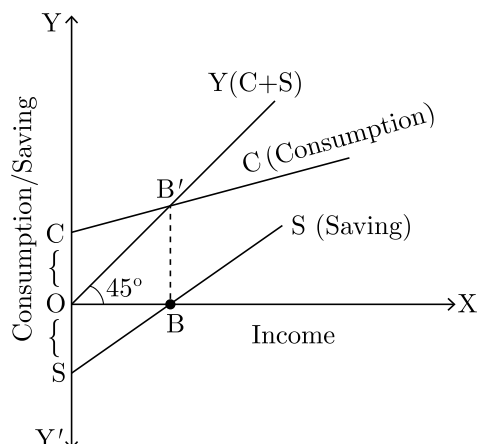
Role of Repo Rate:

The repo rate is the interest rate at which the Central Bank lends to commercial banks. To address deficient demand, the Central Bank lowers the repo rate, prompting commercial banks to reduce their lending rates. Cheaper credit increases the money supply, encouraging firms to borrow for investment. This rise in investment boosts aggregate demand, eliminating the effects of deficient demand and revitalizing the economy.

- 163.** Draw a hypothetical propensity to consume curve and from it derive the propensity to save curve.

Ans :

SQP 2010



FOUR MARK QUESTIONS

1. Perpendicular from Break-even Point: Locate the break-even point B' on the consumption curve, where savings are zero (i.e., income equals consumption). Draw a perpendicular from B' to the X-axis and label it B .
2. Negative Savings on Y-axis: Measure OC on the positive Y-axis (representing positive savings). Take an equal distance OS on the negative Y-axis (representing negative savings).
3. Draw the Savings Curve: Join the points S (negative savings) and B (zero savings). Extend this line upward into the positive quadrant to represent increasing savings as income rises. This forms the savings curve.

- 164.** Measure the level of ex-ante aggregate demand, when autonomous investment and consumption expenditure (A) is 50 crore and MPS is 0.2 and level of income (Y) is 4000 crore. State whether the economy is in equilibrium or not. Give reasons.

Ans :

COMP 2012

To determine whether the economy is in equilibrium:

1. Aggregate Demand (AD):

We are given:

$$AD = C + I$$

And $C = \bar{C} + bY$,

where $\bar{C}$ is autonomous consumption and b is the marginal propensity to consume (MPC).

Substituting:

$$AD = \bar{C} + bY + I$$

Given:

$$\bar{C} = 50$$

$$AD = 50 + 0.8(4,000) + I$$

$$AD = 50 + 3,200$$

$$AD = 3,250 \text{ crore}$$

2. Aggregate Supply (AS):

Given $AS = Y = 4,000$

3. Comparison:

Since

$$AD = 3,250 \quad AD < AS$$

Conclusion:

The economy is not in equilibrium because aggregate demand is less than aggregate supply. This reflects a situation of deficient demand.

- 165.** State and discuss the components of Aggregate Demand in a two-sector economy.

Ans :

COMP 2019

In a two-sector economy, aggregate demand consists of consumption demand and investment demand. Aggregate demand, or expenditure, reflects the spending intentions of households and entrepreneurs on consumption and investment. Thus, Aggregate Demand (AD) equals the sum of Consumption Demand and Investment Demand. Consumption demand depends on the community's propensity to consume and the national income level, typically increasing directly with income, but at a slower rate, as per Keynes's consumption theory. Investment demand, the second component, relies on the marginal efficiency of capital and the interest rate. In the short run, it primarily varies with the marginal efficiency of capital, reflecting entrepreneurs' expected profits from capital investments.

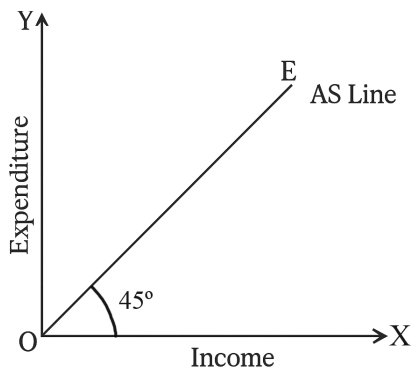
- 166.** What is aggregate supply? Use a schedule and a diagram to explain it.

Ans :

COMP 2012

Aggregate supply represents the value of final goods and services that producers plan to produce in a given period. This value, equivalent to the national income, shows a direct relationship between aggregate supply and national income, as both are equal. The aggregate supply price line is depicted as a 45° line, also referred to as the line of equality. In the diagram, the line OE represents aggregate supply, with every point on this line indicating equality between aggregate supply (AS) and national income (Y). According to the table, when Y is ₹100 crore, AS is ₹100 crore and when Y is ₹0, AS is also ₹0.

National Income (Y) (₹ in crore)	Aggregate Supply (AS)
100	100
200	200
300	300
400	400



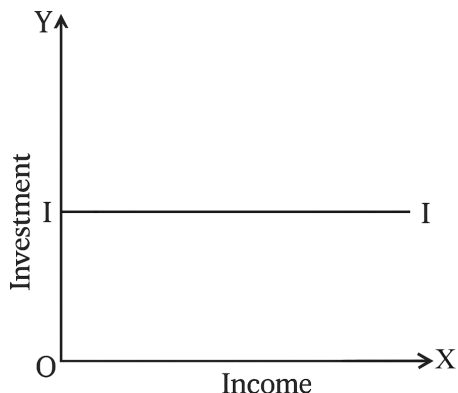
167. Explain the distinction between 'autonomous investment' and 'induced investment'.

Ans :

OD 2013

Induced Investment refers to investment driven by the goal of earning profit. It varies directly with changes in national income. For instance, a rise in national income boosts demand, prompting increased investment to meet higher supply needs. Thus, induced investment is income-elastic, responding positively to income changes.

Autonomous Investment, on the other hand, remains unaffected by income levels and is influenced by factors unrelated to income, such as technological advancements or government policies. Its volume stays constant regardless of income changes, making it income-inelastic. Keynes considered investment as autonomous. The distinction between these two concepts is better understood through the table and diagram that follow.



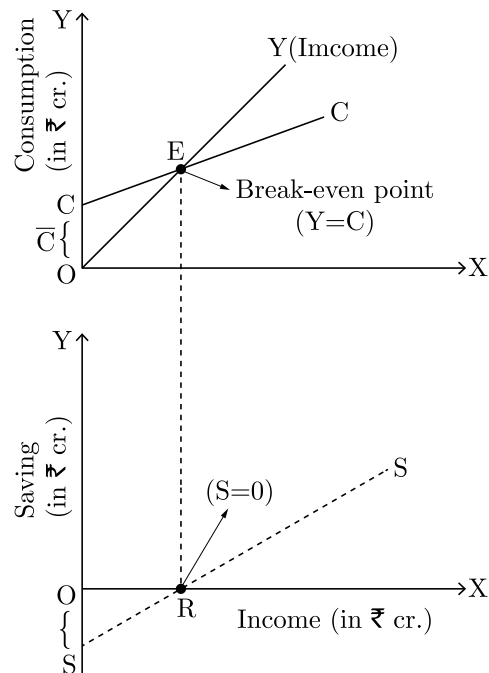
Income	Investment
0	100
100	100
200	100
300	100
400	100

As shown in the diagram investment curve II is a straight horizontal line because it is not affected by the income.

168. Outline the steps taken in deriving saving curve from the consumption curve. Use diagram.

Ans :

OD 2012



The saving function describes the relationship between saving and income. Savings and consumption curves are complementary since together they equal income:

$$\text{Income (Y)} = \text{Consumption (C)} + \text{Saving (S)}.$$

Key points about the saving function and curve:

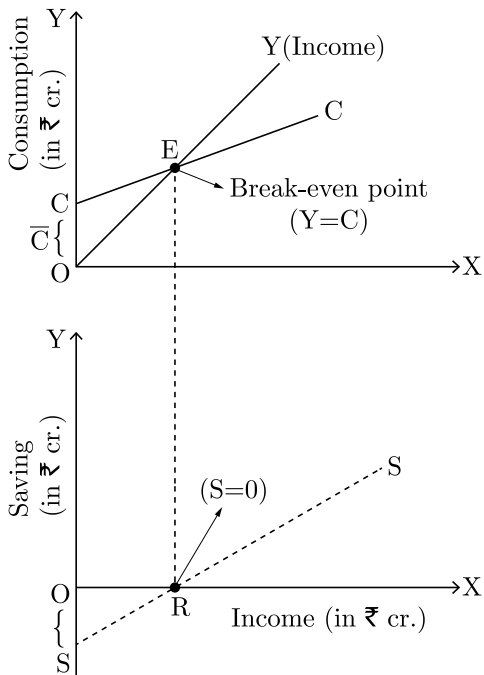
1. Consumption depends on income, but some consumption occurs even at zero income, termed autonomous consumption (OC). At this point, savings (S) are negative, or dis-saving (OS).
2. In the diagram, CC represents the consumption curve, while the 45° line shows the income curve.
3. Point E is the break-even point where income equals consumption ($Y = C$), so savings are zero (point R).
4. The saving curve starts at S (negative savings) on the Y-axis, intersects the X-axis at R and rises above it as savings become positive with increasing income.

By joining S and R and extending upward, the saving curve is derived.

169. Outline the steps taken in deriving Consumption Curve from the Saving Curve. Use diagram.

Ans : OD 2012

The consumption function explains the relationship between consumption and income. Even at zero income, there is some consumption, known as autonomous consumption (OC). Saving represents the portion of income not consumed.



Key relationships include:

- $\text{Saving} = \text{Income} - \text{Consumption}$
- $\text{Consumption} = \text{Income} - \text{Saving}$

Key Features of the Relationship:

1. When consumption exceeds income, savings are negative (dis-saving).
2. When consumption equals income, savings are zero.
3. When consumption is less than income, savings become positive.

Consumption and saving curves are complementary; knowing one allows the derivation of the other. In the diagram:

1. A 45° line (OY) represents the income curve.
2. At zero income, autonomous consumption is OC, equivalent to dis-saving (OS), forming the starting point (C) of the consumption curve.
3. At income level OR, savings are zero and consumption equals income. Drawing a perpendicular from R to the 45° line gives point E.

4. Connecting points C and E and extending the line forms the consumption curve.

170. If planned savings exceed planned investments in an economy, explain its likely impact on income, output and employment.

Ans : DELHI 2023

According to the Savings and Investment approach, an economy's national income is in equilibrium when planned savings (S) equal planned investment (I). Savings represent income not spent on consumption, while investment involves spending on new capital assets.

Key Points with the Schedule and Diagram:

1. The Savings Curve (SS) starts at a negative value, reflecting autonomous consumption (spending at zero income). It shows planned savings at different income levels.
2. The Investment Curve (II) is a horizontal line, representing autonomous investment, which remains constant regardless of income changes.
3. Equilibrium occurs at point E, where planned savings equal planned investment and equilibrium income is OY.

Analysis of the Table:

- At low income levels (e.g., ₹200 crore), $S < I$, leading to excess demand and prompting firms to increase production.
- At high income levels (e.g., ₹500 crore), $S > I$, creating excess inventory as firms produce more than what households consume. This forces firms to reduce production, lowering income and savings until $S = I$.

Income (Y)	Consump- tion (C)	Savings (S)	Investment (I)	Remarks
0	40	-40	40	$S < I$
100	120	-20	40	$S < I$
200	200	0	40	$S < I$
300	280	20	40	$S < I$
400	360	40	40	$S = I$ (Equilibrium)
500	440	60	40	$S > I$
600	520	80	40	$S > I$

When $S > I$, excess savings reduce demand, creating unsold inventory. Firms cut production, lowering income and savings until equilibrium is restored. This demonstrates the interplay between savings, investment and national income adjustments.

- (iii) What does the shaded area AOB indicate?
 (iv) What is the significance of point B?

Ans :

DELHI 2020

Here is a detailed explanation of the points provided:

- (i) At OB level of income, $APS = 0$: Average Propensity to Save (APS) is zero when savings are zero. This happens at the break-even point (B), where income equals consumption ($Y = C$), leaving no portion of income to be saved.
- (ii) OA represents dis-saving (autonomous consumption): At zero income, consumption is still positive due to autonomous consumption, represented by OA. This is the minimum consumption required to sustain life, financed through borrowing or using past savings.
- (iii) Shaded area (AOB) indicates negative savings (dis-saving): The triangle AOB represents negative savings, where consumption exceeds income. At zero income, dis-saving is maximum (OA) and gradually decreases until savings reach zero at the break-even point (OB).
- (iv) Point B as the break-even point: At point B, income equals consumption ($Y = C$), so savings are zero. This point signifies the transition from dis-saving to positive saving as income rises.

This analysis illustrates the relationship between income, consumption and savings, highlighting the concept of autonomous consumption and the break-even point in the saving function.

- 179.** Assuming that increase in investment is ₹800 crore and marginal propensity to consume is 0.8, explain the working of multiplier.

Ans :

OD 2017

The multiplier effect demonstrates how an initial increase in investment leads to a more significant overall increase in income. The process operates on the principle that one person's expenditure becomes another person's income. Let's break it down:

Example:

1. Initial Investment: An additional investment of ₹800 crore (e.g., for constructing a flyover) generates an initial income of ₹800 crore in the first round.
2. Marginal Propensity to Consume (MPC): Assuming $MPC = 0.8$, recipients of this ₹800

crore spend 80% (₹640 crore) as consumption and save the rest. This ₹640 crore becomes the income for others in the economy.

3. Second Round: From the additional income of ₹640 crore, 80% (₹512 crore) is spent on consumption and the rest is saved.
4. Subsequent Rounds: This process continues, with consumption in each round being 80% of the additional income from the previous round.

Total Increase in Income:

The cumulative increase in income from this multiplier process sums up to ₹4,000 crore approximately, despite the initial investment being only ₹800 crore.

Formula:

1. Multiplier (K):

$$K = \frac{1}{1 - MPC}$$

Substituting $MPC = 0.8$:

$$K = \frac{1}{1 - 0.8} = 5$$

2. Total Income Increase:

$$\Delta Y = K \times \Delta I$$

$$\Delta Y = 5 \times 800 = ₹4,000$$

Thus, the multiplier shows how initial spending triggers a chain reaction, amplifying the total impact on income.

- 180.** Assuming that increase in investment is ₹1000 crore and marginal propensity to consume is 0.9, explain the working of multiplier.

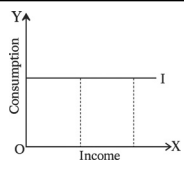
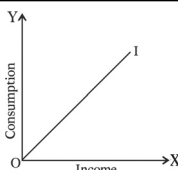
Ans :

OD 2017

The working of the multiplier is based on the fact that one person's expenditure is another person's income.

Let us understand this with the help of an example:

- (i) Suppose an additional investment of ₹1,000 crore is made to construct a flyover. This extra investment will generate an extra income of ₹1,000 crore in the first round.
- (ii) Assuming MPC to be 0.9, the recipients of this additional income will spend 90% of ₹1,000 crore, i.e., ₹900 crore as consumption expenditure and the remaining amount will be saved. It will increase the income of others by ₹900 crore in the same round.
- (iii) In the second round, 90% of the additional income of ₹900 crore, i.e., ₹810 crore will be spent on consumption and the remaining amount will be saved.

3.	Graphical representation		
4.	Elasticity	It is income-inelastic.	It is income-elastic.
5.	Nature	It cannot be zero. It must be greater than zero i.e., $\bar{C} > 0$	It can be equal to zero when Marginal propensity to consume is zero.

- 173.** When is an economy in equilibrium? Explain with the help of Saving and Investment functions. Also explain the changes that take place in an economy when the economy is not in equilibrium. Use diagram.

or

Explain the national income determination in an economy using saving and investment approach. Use diagram.

Ans :

OD 2014

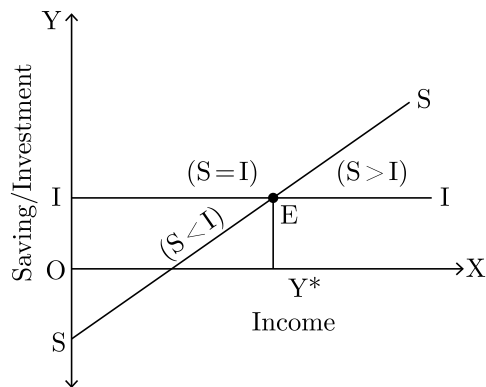
Saving and Investment Approach. According to the Saving and Investment approach, the national income in an economy is in equilibrium when planned savings (S) are equal to planned investment (I). Savings are the excess of income over consumption expenditure whereas investment refers to the expenditure incurred on creation of new capital assets.

We can understand this with the help of a schedule and diagram:

Equilibrium by Saving and Investment Approach

Y	C	S	I	Remark
0	40	-40	40	$S < I$
100	120	-20	40	$S < I$
200	200	0	40	$S < I$
300	280	20	40	$S < I$
400	360	40	40	$S = I$ (Equilibrium)
500	440	60	40	$S > I$
600	520	80	40	$S > I$

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This can be explained with the help of the given diagram:

- SS is the saving curve that shows planned saving at different levels of income. It starts from a negative value because there must be some consumption when income is zero.
- Investment curve (II) is parallel to X-axis representing autonomous investment which remains unchanged as income increases.
- E is the equilibrium point where $S = I$ and OY is the equilibrium level of income where ex-ante saving is equal to ex-ante investment. If there is any deviation from the equilibrium level of income, then a process of re-adjustments will start which will bring the economy back to the equilibrium level.
- When Saving is more than Investment ($S > I$). If planned saving is more than planned investment, i.e., after point E (in the diagram), it means that households are not consuming as much as the firms expect them to. Hence, inventory rises above the desired level. As a result, firms would plan to reduce production till saving and investment become equal again.
- When Saving is less than Investment ($S < I$). This means that households are consuming more and saving less than what the firms expect them to. As a result, inventory falls below the desired level. Therefore, the firms increase production till saving again becomes equal to investment.

- 174.** What is meant by the “Effective Demand Principle” in Keynesian theory of employment? Discuss using a schedule or a diagram.

Ans :

SQP 2019

Effective Demand refers to consumers' willingness and ability to purchase goods at various price levels. According to Keynes' principle of effective

171. Distinguish between Aggregate Demand and Aggregate Supply.

Ans :

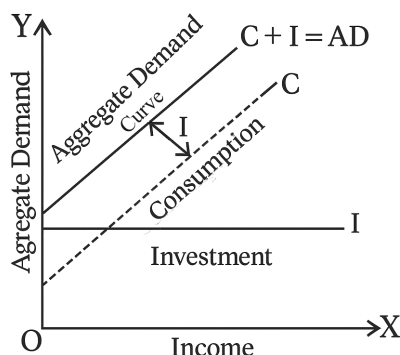
OD 2014, 2013

Aggregate Demand (AD) refers to the total value of final goods and services which all the sectors of an economy are planning to buy at a given level of income during a period of one accounting year. Even though AD has four components, we assume that AD is a function of only consumption expenditure and investment expenditure, i.e., $AD = C + I$.

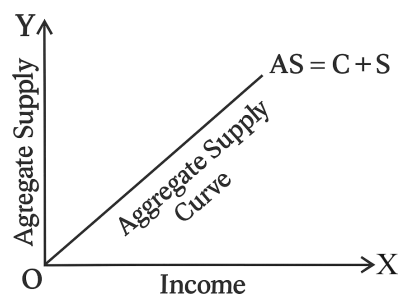
AD curve has a positive slope indicating that as the income increases, aggregate expenditure also increases.

In the diagram:

- AD curve has a positive slope which means when income increases; AD also increases.
- AD curve does not begin from origin because of autonomous consumption.
- Investment curve is a straight line parallel to X-axis because according to Keynes, level of investment remain constant at all level of income during short-period.



Aggregate Supply (AS) refers to money value of goods and services that all the producers are willing to supply in an economy in the given period.



Aggregate supply is the sum of consumption and saving. Since aggregate supply is equal to national income and income is either consumed or saved,

therefore, $AS = C + S$.

Aggregate supply curve is a 45° line drawn from the origin indicating that every point on this line is equidistant from X and Y-axis.

172. What is ex-ante consumption? Distinguish between autonomous consumption and induced consumption.

Ans :

OD 2014, 2013

Ex-ante consumption means planned consumption expenditure on final goods in the economy. Ex-ante consumption is divided into two parts –

- Autonomous consumption
- Induced consumption.

Total Consumption (C) comprises two components: Autonomous Consumption ($\bar{C}$): Even when income (Y) is zero, there is some minimum consumption for survival, known as autonomous consumption which is always positive. It is denoted as $\bar{C}$. Thus, $\bar{C} > 0$.

Induced Consumption (bY): This is influenced by change in income. When income increases consumption also increases. But, the rate of increase in consumption is less than the rate of increase in income (Keynesian Psychological Law of Consumption). This portion of increased consumption is termed as induced consumption.

Consumption function is represented as:

$$C = \bar{C} + b(Y)$$

...where [C = Consumption; $\bar{C}$ = Autonomous consumption; bY = Induced consumption]

Difference between Autonomous Consumption and Induced Consumption

	Basic	Autonomous Consumption	Induced Consumption
1.	Meaning	At the zero level of income, there is minimum consumption for survival called Autonomous Consumption.	When income increases consumptions also increases but not by the same proportion.
2.	Motive	It is denoted by $\bar{C}$.	It is the function of income, so it is written as bY.

by households and firms on final goods and services within a year, while Planned Output represents the total production planned by firms for the same period. An economy reaches equilibrium when planned spending equals planned output, i.e., $AD = AS$ or $C + I = Y$, where:

- Consumption Expenditure (C) + Investment Expenditure (I) = Income (Y).

Equilibrium Condition:

In equilibrium, all goods produced are either consumed by households or invested by firms, ensuring no surplus or shortage in the economy.

Disequilibrium Case: $AD > AS$

- If planned spending exceeds planned output ($AD > AS$), firms experience an unplanned decrease in inventories, as consumers and firms purchase more than the firms produce.
- To restore inventory levels, firms expand production and increase employment, leading to higher output and income.
- This process continues until equilibrium is reached, where $AD = AS$.

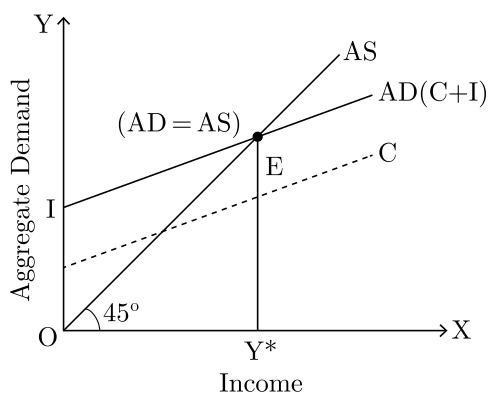
Thus, equilibrium ensures stable output and income, aligning planned expenditure with planned production.

17. Explain national income equilibrium through aggregate demand and aggregate supply. Use diagram. Also explain the changes that take place in an economy when the economy is not in equilibrium.

Ans :

OD 2014

Aggregate demand refers to the total value of final goods and services demanded in an economy in a year.



Aggregate Supply (AS) represents the total planned output by producers in an economy during a given accounting year. The equilibrium level of national income is established when Aggregate Demand (AD) equals Aggregate Supply (AS):

$$AD = AS$$

Diagram Explanation:

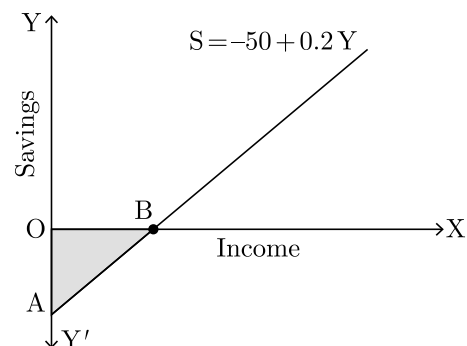
- Income is shown on the X-axis and Aggregate Demand (AD) on the Y-axis.
- The CC curve represents the consumption function.
- Investment, denoted by CI, is constant across income levels (autonomous investment). Adding CI to the consumption curve yields the AD curve.
- Equilibrium is reached at point E, where the AD curve intersects the 45° line and the equilibrium level of income is OY.

Adjustments to Disequilibrium:

1. When $AD > AS$:
 - Buyers plan to purchase more than producers plan to supply, causing inventories to fall below the desired level.
 - Producers respond by expanding production, which increases income. This process continues until AD equals AS, restoring equilibrium.
2. When $AD < AS$:
 - Buyers plan to purchase less than producers plan to supply, leading to an undesired rise in inventories.
 - Producers cut back on production and reduce employment, which lowers income. The downward adjustment continues until AD equals AS, re-establishing equilibrium.

This dynamic ensures that the economy naturally gravitates toward equilibrium, balancing aggregate demand and supply.

178. Answer the following questions on the basis of the given figure:



- At which level of income Average Propensity to Save (APS) will be equal to zero and why?
- What does 'OA' signify with respect to consumption function.

demand, equilibrium occurs where Aggregate Demand (AD) equals Aggregate Supply (AS).

- Aggregate Demand (AD) is the total expenditure on consumption and investment, derived by summing consumption and investment at each income level.
- Aggregate Supply (AS) is the total production value of goods and services, equivalent to national income or output.

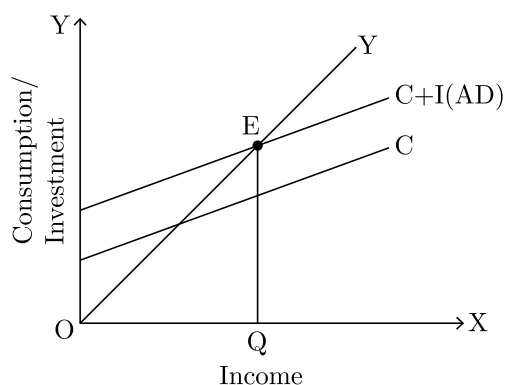
Key Features :

1. Effective demand is established at the equilibrium point (E), where $AD = AS$.
2. The diagram illustrates that point E is where the aggregate demand curve intersects the aggregate supply curve.

Schedule:

Income (₹ crore)	Consumption (₹ crore)	Investment (₹ crore)	Aggregate Demand (₹ crore)	Aggregate Supply (₹ crore)
0	50	100	150	0
100	100	100	200	100
200	150	100	250	200
300	200	100	300	300
400	250	100	350	400

At point E (Income = ₹300 crore), effective demand is achieved as $AD = AS$ (₹300 crore). Beyond or below this point, disequilibrium occurs, reflecting either excess supply or demand.



- 175.** What are two alternative ways of determining equilibrium level of income? How are these related?

Ans :

There are two approaches to determine the equilibrium level of income and output in an economy:

1. Planned Aggregate Demand (AD) = Planned Aggregate Supply (AS):

Equilibrium occurs when total planned expenditure (AD) equals total planned output (AS), i.e., $C + I = Y$, where Y is income. Since income is either consumed or saved, we also have $Y = C + S$. Thus, at equilibrium: $C + I = C + S$, implying $I = S$ (Investment equals Savings).

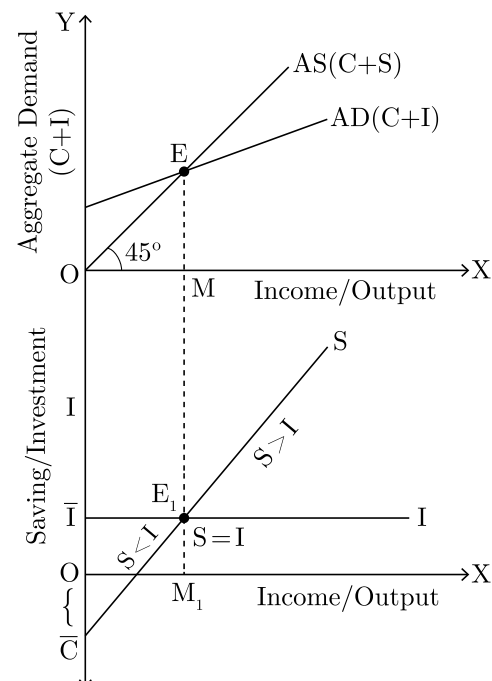
2. Planned Investment (I) = Planned Savings (S):

Equilibrium income is achieved when planned savings are equal to planned investment.

Diagram Interpretation:

- (i) $AD = AS$ (Upper Part): The equilibrium point E is where the AD curve intersects the 45° line (AS curve) and the corresponding income level is OM.
- (ii) $I = S$ (Lower Part): Equilibrium occurs at point E₁, where the savings curve intersects the investment curve. The equilibrium income corresponding to this point is OM₁.

In both cases, equilibrium ensures that the economy's planned spending aligns with planned production, stabilizing income at the determined level.



- 176.** In an economy planned spending is greater than planned output. Explain all the changes that will take place in the economy.

Ans :

OD 2015

Planned Spending refers to the total expenditure

- (iv) This multiplier process will go on, with the consumption expenditure in every round being 0.9 times of the additional income received from the previous round.

The process of working of multiplier is further, illustrated in the following table:

Rounds of income generation	Increase in investment (ΔI)	Increase in income (ΔY)	Increase in consumption (ΔC) (MPC = 0.9)
Round 1	50	1000	900
Round 2	—	900	810
Round 3	—	810	729
Round 4	—	—	—
:	:	:	:
:	:	:	:
Total	1000	10000	9000

Thus, an initial investment of ₹1,000 crore leads to a total increase in income of ₹10,000 crore (approx.)

As a result,

$$\text{Multiplier, } K = \frac{\Delta Y}{\Delta I} = \frac{10,000}{1,000} = 10$$

$$\text{Also, Multiplier} = \frac{1}{1 - \text{MPC}} = \frac{1}{1 - 0.9} = \frac{1}{0.1} = 10$$

- 181.** Assuming that 'increase' in investment is ₹900 crore and marginal propensity to consume is 0.6, explain the working of multiplier.

Ans :

OD 2017

The multiplier effect explains how an initial investment leads to a multiplied increase in income, based on the principle that expenditure by one person becomes income for another. Here's a step-by-step explanation with the example provided:

Example:

1. Initial Investment: An additional investment of ₹900 crore (e.g., for constructing a flyover) generates an initial income of ₹900 crore in the first round.
2. Marginal Propensity to Consume (MPC): Given MPC = 0.6, recipients of the ₹900 crore spend 60% (₹540 crore) on consumption and the rest is saved. This ₹540 crore becomes income for others.
3. Second Round: From the additional income of ₹540 crore, 60% (₹324 crore) is spent on consumption and the rest is saved.
4. Subsequent Rounds: The process continues,

with each round's consumption being 60% of the income received in the previous round.

Total Increase in Income:

The total increase in income due to this multiplier effect sums to approximately ₹2,250 crore, despite the initial investment being only ₹900 crore.

Multiplier Formula:

1. Multiplier (K):

$$K = \frac{1}{1 - \text{MPC}}$$

Substituting MPC = 0.6:

$$K = \frac{1}{1 - 0.6} = 2.5$$

2. Total Income Increase:

$$\Delta Y = K \times \Delta I$$

$$\Delta Y = 2.5 \times 900 = ₹2,250$$

Conclusion:

The multiplier process shows how initial spending triggers a chain reaction, ultimately resulting in a total income increase of ₹2,250 crore, with a multiplier value (K) = 2.5.

- 182.** Define full employment in an economy. Discuss the situation when aggregate demand is more than aggregate supply at full employment income level.

Ans :

FOREIGN 2018

Full employment occurs when all individuals willing and able to work at the prevailing wage rate are employed. At this level, the economy operates at its maximum capacity, with no idle resources.

Excess Demand and Inflationary Gap:

1. Excess Demand:

- This arises when Aggregate Demand (AD) exceeds Aggregate Supply (AS) at the full employment level of income.
- It results in a demand-supply imbalance, pushing prices upward—a phenomenon known as demand-pull inflation.

2. Inflationary Gap: The gap between actual AD (QG) and required AD (QF) for full employment equilibrium is termed the inflationary gap (FG).

3. Implications:

- Since the economy is already at full employment level of income (OQ), there is no scope for increasing output or employment.
- The rise in demand leads only to higher price levels, as supply cannot expand further to match the additional demand.

Diagram Explanation:

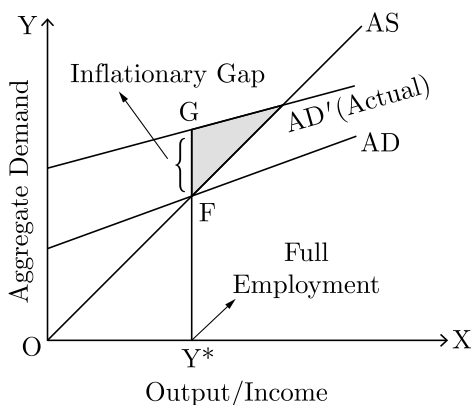
- OQ represents the full employment level of income.
- QF indicates the AD required for full employment equilibrium.
- QG, being greater than QF, signifies actual AD.
- The gap FG reflects the inflationary gap due to excess demand.

This situation highlights the importance of managing aggregate demand to prevent overheating in the economy, which causes inflation without enhancing production or employment.

- 183.** In an economy aggregate demand is greater than aggregate supply. Explain the changes that will take place in this economy.

Ans :

OD 2011



When Aggregate Demand (AD) exceeds Aggregate Supply (AS) at the full employment level of output, it results in an inflationary gap (GF) as shown in the diagram. This gap reflects the excess demand, causing upward pressure on prices since supply cannot increase further in the short run.

Steps to Address Inflationary Gap:

Since aggregate supply cannot be increased in the short term, the focus should be on reducing aggregate demand by an amount equal to the inflationary gap (GF). This can be achieved using contractionary policies:

1. **Contractionary Fiscal Policy:**
 - Reduce government spending to lower overall demand.
 - Increase taxes to decrease disposable income and, consequently, consumption and investment.
2. **Contractionary Monetary Policy:**

- Increase interest rates to discourage borrowing and reduce consumption and investment.
- Reduce money supply through open market operations (selling government securities).

Diagram Explanation:

- At point G, AD exceeds AS at the full employment level of output.
- Corrective measures aim to reduce AD, shifting it downward to point F, where AD equals AS, eliminating the inflationary gap and stabilizing the economy.

Implementing these policies helps balance demand and supply, curbing inflation while maintaining the economy at full employment.

- 184.** “In an economy ex-ante Aggregate Demand is more than ex-ante Aggregate Supply.”

Explain its impact on the level of output, income and employment.

Ans :

SQP 2023

When Aggregate Demand (AD) exceeds Aggregate Supply (AS) at the full employment level of income, the economy experiences a situation of excess demand, leading to an inflationary gap. This gap triggers demand-pull inflation, characterized by rising prices due to an inability to increase output further.

Key Features:

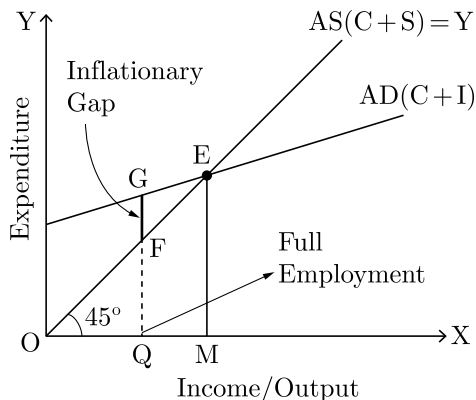
1. **Full Employment Level of Income (OQ):** At full employment, all resources are fully utilized and the economy cannot produce beyond this level in the short run.
2. **Equilibrium AD (QF):** For full employment equilibrium, aggregate demand should be QF, where AD equals AS.
3. **Excess AD (QG):** Actual aggregate demand exceeds QF, reaching QG, creating an inflationary gap represented by FG.
4. **Impact of Excess Demand:**
 - Output and employment remain unchanged since the economy is already at full employment.
 - Prices rise due to increased demand with no additional supply, resulting in inflation.

Diagram Explanation:

- OQ represents the full employment income level.
- QF denotes the aggregate demand required for equilibrium.

- QG signifies actual aggregate demand.
- The gap FG illustrates the inflationary gap caused by excess demand.

This situation underscores the need for policy measures to control aggregate demand and prevent overheating in the economy, which can destabilize prices.



- 185.** How is 'saving and investment' approach derived from the 'aggregate demand and supply' approach of income determination? Use diagram.

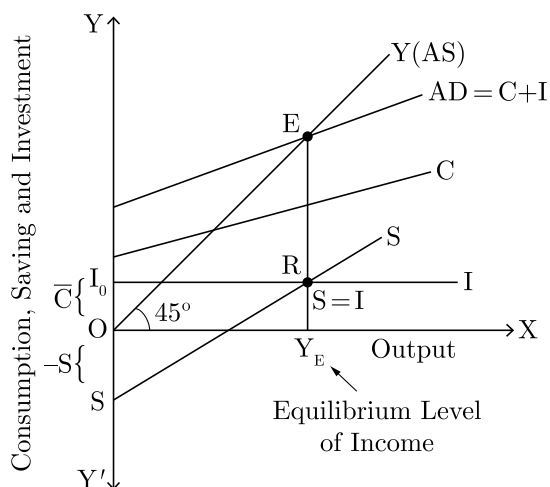
Ans :

OD 2010

The equilibrium level of national income is determined at the point where aggregate demand (AD) equals aggregate supply (AS).

$$AD = AS \quad \dots(1)$$

In a two sector economy, aggregate demand (Expenditure) is sum of consumption (C) and investment (I) and aggregate supply is value of flow of goods and services (national income) which is either consumed or saved.



$$C + I = C + S$$

as $C + I = AD$

and $C + S = AS$

$$I = S \quad \text{or} \quad S = I \quad \dots(2)$$

Determination of Equilibrium level of income

($AD = AS$ and $S = I$)

Equation (1) and (2) are the two approaches for basic equilibrium for determination of national income.

At the equilibrium level of national income actual saving and investment are also equal. This implies that at equilibrium level of income, the part of income which is left after consumption is demanded by business firms for investment.

At equilibrium level of income, equality of aggregate supply (AS) and aggregate demand (AD) and that of S and I can be explained with the help of the diagram given.

In the given diagram, OY is aggregate supply line and (C + I) is aggregate demand line which intersect each other at point E where equilibrium level of income is OYE. In the same diagram saving (SS) and investment (I) lines intersect at point R, where the level of income is OYE. Therefore, at OYE level of income AS is equal to AD and S is equal to I.

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- 186.** Give two alternative conditions of national income equilibrium. Explain what is likely to happen, if the economy is not in equilibrium.

Ans :

OD 2017

The equilibrium level of national income is determined at the point where aggregate demand (AD) equals aggregate supply (AS).

$$AD = AS \quad \dots(1)$$

In a two sector economy aggregate demand (Expenditure) is the consumption (C) and Investment (I) and aggregate supply is value of flow of goods and services (national income) which is either consumed or saved.

$$C + I = C + S$$

as $C + I = AD$

and $C + S = AS$

$$I = S \quad \text{or} \quad S = I \quad \dots(2)$$

Ans :

OD 2010

Change in income = ₹8,000 crore

Given: $\Delta I = ₹100$ crore,

$\Delta Y = ₹1,000$ crore

We know, $K = \frac{\Delta Y}{\Delta I} = \frac{1,000}{100} = 10$

Now, $K = \frac{1}{1 - MPC}$

$$10 = \frac{1}{1 - MPC}$$

$$10 - 10 MPC = 1$$

$$\text{or } -10 MPC = 1 - 10$$

Therefore,

$$MPC = \frac{9}{10} = 0.9$$

- 205.** If marginal propensity to save is one, what is the value of multiplier? What can you say about the change in national income, given change in investment? (2010 CD)

Ans :

OD 2010

Given: $MPS = 1$

As we know, $K = \frac{1}{MPS}$

$$K = \frac{1}{1} = 1$$

Since the multiplier is 1, therefore Change in investment (ΔI) will bring the same amount of change in National Income (ΔY), e.g., if

$$\Delta I = ₹500 \text{ crore}$$

As we know, $K = \frac{\Delta Y}{\Delta I}$

$$I = \frac{\Delta Y}{500} \quad (\Delta Y = ₹500 \text{ crore})$$

- 206.** In an economy, investment is increased by ₹2,000 crore. Calculate the change in total income, if marginal propensity to save is 0.25.

Ans :

OD 2010

Given: $\Delta I = ₹200$ and $MPS = 0.25$

We know that,

$$K = \frac{1}{MPS}$$

$$\text{Or } K = \frac{1}{0.25} = \frac{100}{25} = 4$$

Now, $K = \frac{\Delta Y}{\Delta I}$

$$4 = \frac{\Delta Y}{2,000}$$

$$\Delta Y = ₹8,000 \text{ crore}$$

- 207.** In an economy the marginal propensity to consume is 0.75. Investment expenditure in the economy increases by ₹75 crore. Calculate the total increase in national income.

Ans :

OD 2011

We know that,

$$K (\text{Multiplier}) = \frac{1}{1 - MPC}$$

$$K = \frac{1}{1 - 0.75}$$

[MPC = 0.75 (given)]

$$K = \frac{1}{0.25} = \frac{100}{25} = 4$$

Again, $\Delta Y = \Delta I \times K$

$$\Delta Y = 75 \times 4 = 300$$

($\Delta I = ₹75$ crore)

Change in Income,

$$\Delta Y = ₹300 \text{ crore}$$

- 208.** As a result of increase in investment by ₹60 crore, National Income rises by ₹240 crore. Calculate marginal propensity to consume.

Ans :

OD 2011

Given: $\Delta Y = 240$ and $\Delta I = 60$

Multiplier, $K = \frac{\Delta Y}{\Delta I} = \frac{240}{60} = 4$

Now, $K = \frac{1}{1 - MPC}$

$$4 = \frac{1}{1 - MPC}$$

$$4 - 4MPC = 1$$

$$-4MPC = -3$$

$$MPC = \frac{3}{4} = 0.75$$

- 209.** In an economy, a 20 per cent increase in investment results in a 100 per cent increase in income. Calculate the marginal propensity to consume.

Ans :

OD 2012

$$K = \frac{\Delta Y}{\Delta I}$$

$$= \frac{\% \text{ Change in Income}}{\% \text{ Change in Investment}}$$

$$= \frac{100}{20} = 5$$

We know, $K = \frac{1}{MPS}$

This signifies that deficiency of aggregate demand does not lead to the full use of given resources at the full-employment level. In this case involuntary unemployment exists. Therefore, for reaching the stage of full employment where all the given resources are fully utilised, efforts should be made to increase the level of aggregate demand. In the given diagram (i) OY_F is full employment level and OY^* is the actual output level, where AD equals AS .

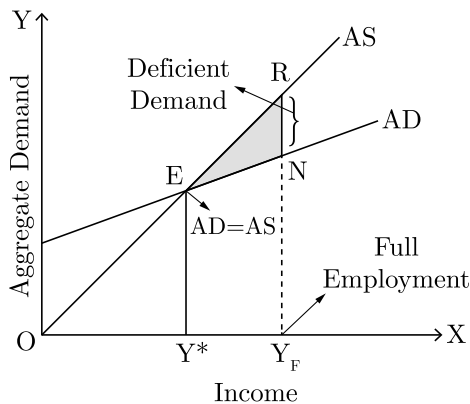


Diagram (i)

When $AD > AS$: If equilibrium takes place after the stage of full employment, it is a case of excess demand. In this case the level of aggregate demand at the level of equilibrium is higher and hence cannot be met by full use of given resources. Therefore, in this case output does not increase and only price increases. Therefore, for achieving the stage of full employment necessary methods should be used for reducing the level of aggregate demand.

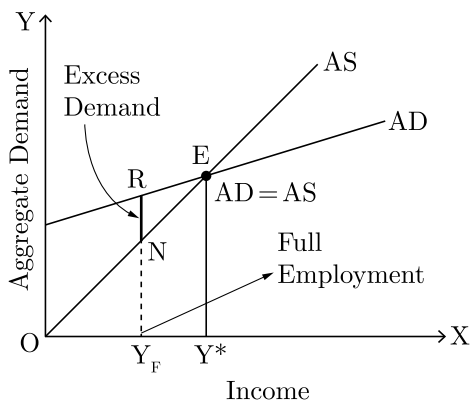


Diagram (ii)

In diagram (ii) OY_F is the full employment level and OY^* is the actual level of employment at equilibrium, where AD equals AS .

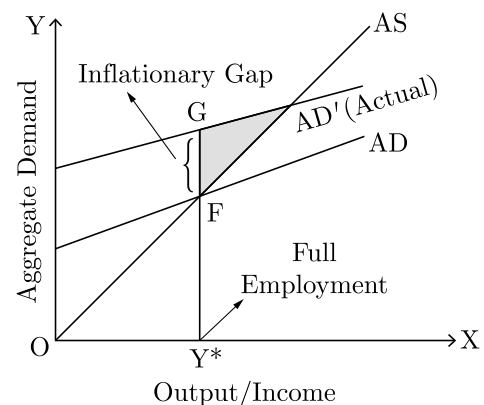
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- 189.** Define and represent 'inflationary gap' on a diagram. Explain the role of the 'varying reserves requirement' in removing the gap.

Ans :

OD 2010

Inflationary gap relates to a situation of excess demand. In such a case, real aggregate demand at the full employment level is more than the aggregate demand which is required to maintain the full employment level. The excess of real aggregate demand over the full employment level aggregate demand is called inflationary gap. In other words, inflationary gap is the measure of excess demand.



The concept of inflationary gap can be explained with the help of the given diagram. At full employment level OY , real aggregate demand is GY , whereas aggregate demand required to maintain the full employment is FY .

Thus, real aggregate demand exceeds by FG and this is inflationary gap or measure of excess demand. For removing excess demand, central bank should limit the credit creating capacity of commercial banks. For attaining this objective, reserve ratio should be increased so that the banks are required to maintain more cash reserves with the central bank and thus are able to create less credit. So decline in credit availability in the economy will tend to reduce AD and remove the inflationary gap.

- 190.** Explain the role of the following in correcting the inflationary gap in an economy:

- Legal reserves
- Bank rate

Ans :

OD 2011

An inflationary gap occurs when aggregate demand (AD) exceeds aggregate supply (AS) at the full employment level of output, leading to inflation since resources are fully utilized and output

flows out of the central bank and ultimately reaches the commercial banks as deposits. This raises the lending capacity of the banks. People can borrow more and this will raise aggregate demand.

- (ii) Bank rate is the rate of interest which central bank charges from commercial banks for giving them credit. However, the relationship between rate of interest and demand for credit is inverse. Thus, when bank rate is increased, the demand for credit falls. Thus, in case of deficient demand, bank rate should be lowered. This will lead to a fall in the rate of interest, finally leading to an increase in the demand for credit. This will raise aggregate demand.

196. Explain the role of the following in correcting deficient demand in an economy:

- (i) Government expenditure
(ii) Legal reserve

Ans :

FOREIGN 2011

Deficient demand arises when aggregate demand (AD) is less than aggregate supply (AS) at the full employment level, causing involuntary unemployment and underutilization of resources. The deflationary gap reflects this shortfall in demand and measures are required to boost AD and restore full employment equilibrium.

Measures to Address Deficient Demand:

- (i) Increase in Government Expenditure:
- The government can increase spending on infrastructure, public services and social welfare programs.
 - This injects money into the economy, raising incomes and employment levels.
 - Increased government expenditure directly boosts aggregate demand, helping to close the deflationary gap and address unemployment.
- (ii) Reduction in Legal Reserve Ratio (LRR):
- The LRR is the proportion of deposits commercial banks must hold as reserves with the central bank or as cash.
 - Lowering the LRR improves commercial banks' liquidity, increasing their capacity to create credit.
 - Greater credit availability encourages borrowing for consumption and investment, raising aggregate demand.
 - This, in turn, helps correct the deficient demand and eliminate the deflationary gap.

By implementing these measures, fiscal and monetary policies work together to stimulate aggregate demand, address unemployment and bring the economy back to full employment equilibrium.

NUMERICAL QUESTIONS

197. Suppose, an economy is in equilibrium. From the following data, calculate investment expenditure in the economy:

- (a) National Income (Y) = ₹10,000 crore
(b) Marginal Propensity to Consume (MPC) = 0.8
(c) Autonomous Consumption ($\bar{C}$) = ₹100 crore

Ans :

OD 2024

Given: $Y = ₹10,000$ crore, $MPC = 0.8$,
Autonomous consumption,

$$\bar{C} = ₹100 \text{ crore}$$

At equilibrium,

$$Y = C + I$$

And, $C = \bar{C} + (MPC) Y$

$$Y = \bar{C} + (MPC) Y + I$$

$$10,000 = 100 + (0.8) 10,000 + I$$

$$10,000 = 8100 + I$$

Investment Expenditure,

$$I = ₹10,000 - ₹8,100 \\ = ₹1,900 \text{ crore}$$

198. If the value of marginal propensity to save is 0.4, what will be the value of investment multiplier?

Ans :

OD 2012

Multiplier, $K = \frac{1}{MPS}$

$$= \frac{1}{0.4} = \frac{10}{4} = 2.5$$

199. On the basis of the following schedule, answer the given questions:

Income (in ₹ crore)	0	50	100	150	200
Savings (in ₹ crore)	-20	-10	0	30	60

- (a) Calculate Marginal Propensity to Save (MPS) at ₹150 crore level of income.
(b) What is the value Autonomous Consumption?

By implementing these measures, the economy can address under-employment, enhance resource utilization and bridge the deflationary gap.

193. Explain the role of the following in correcting 'excess demand' in an economy:

- (i) Bank rate
- (ii) Open market operations

Ans :

OD 2011

Excess demand occurs when aggregate demand (AD) exceeds aggregate supply (AS) at the full employment level of income, leading to inflation without any increase in real output. To address this, aggregate demand must be reduced to stabilize the economy.

Measures to Reduce Aggregate Demand:

(i) Bank Rate Policy:

- The bank rate is the interest rate at which the central bank lends to commercial banks.
- To control excess demand, the central bank increases the bank rate, making borrowing costlier for commercial banks.
- This leads to higher lending rates for the public, discouraging borrowing for investment and consumption.
- Reduced borrowing decreases aggregate demand, helping to correct the inflationary pressures.

(ii) Open Market Operations (OMO):

- OMOs involve the sale and purchase of securities by the central bank in the open market.
- To address excess demand, the central bank sells securities to the public.
- Payments for these securities flow out of commercial banks to the central bank, reducing the liquidity available for lending.
- This lowers the credit supply, which reduces consumption and investment, ultimately curbing aggregate demand.

By implementing these measures, the central bank can reduce the inflationary gap and stabilize the economy at the full employment level.

194. What is 'excess demand'? Explain the role of 'Reverse Repo Rate' in removing it.

Ans :

OD 2015

When the equilibrium level of income is established beyond the full employment level, it indicates a situation of excess demand. This arises

when aggregate demand (AD) exceeds aggregate supply (AS) at full employment, leading to an inflationary gap.

(i) Inflationary Gap:

- The inflationary gap is the difference between the actual aggregate demand and the aggregate demand required for full employment equilibrium.
- Since output cannot increase beyond the full employment level, excess demand results in rising prices without an increase in real output.

(ii) Role of Reverse Repo Rate (RRR) in Controlling Excess Demand:

- Reverse Repo Rate (RRR): The RRR is the interest rate at which commercial banks deposit their excess funds with the central bank.
- How RRR Helps Reduce Excess Demand:
 - To address excess demand, the central bank increases the Reverse Repo Rate.
 - A higher RRR incentivizes commercial banks to deposit more funds with the central bank, reducing their liquidity.
 - With less liquidity, commercial banks' ability to create credit decreases.
 - Reduced credit availability lowers borrowing by the public, leading to a decrease in aggregate demand.
 - This helps in narrowing the inflationary gap and stabilizing the economy.

By raising the RRR, the central bank effectively curtails liquidity and credit in the economy, reducing the inflationary pressures caused by excess demand.

195. Explain the role of the following in correcting 'deficient demand' in an economy:

- (i) Open market operations
- (ii) Bank rate

Ans :

OD 2011)

The situation of deficient demand exists when at the full employment level, aggregate demand is less than aggregate supply. This creates the problem of involuntary unemployment. For tackling this problem, the level of aggregate demand needs to be increased for which, besides other things, volume of credit should be increased.

(i) Open market operations refer to the sale and purchase of securities by the central bank. In the situation of deficient demand, central bank buys the securities in the open market and makes payment to the sellers. The money

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cannot increase further. To restore equilibrium, AD must be reduced because increasing AS is not possible in this situation.

Measures to Reduce Aggregate Demand:

(i) Legal Reserves:

- Legal reserves are the minimum percentage of deposits that commercial banks are required to hold as cash, either with themselves or the central bank.
- The central bank can increase the legal reserve requirement to address an inflationary gap.
- Higher reserves reduce the funds available for banks to lend, decreasing the credit supply and subsequently lowering aggregate demand.

(ii) Bank Rate:

- The bank rate is the interest rate charged by the central bank to commercial banks for loans.
- An increase in the bank rate leads to higher interest rates for loans from commercial banks to the public.
- This discourages borrowing for investment and consumption, reducing credit demand and aggregate demand.
- Reduced credit demand decreases the money supply in circulation, exerting downward pressure on inflationary forces.

By implementing these monetary tools, the central bank can effectively control aggregate demand, mitigating the inflationary gap and stabilizing the economy.

191. Explain the role of the following in correcting the inflationary gap in an economy:

- Open market operations
- Government expenditure

Ans :

FOREIGN 2013

Measures to Reduce Aggregate Demand:

(i) Open Market Operations:

- These involve the sale and purchase of securities by the central bank.
- To address excess demand, the central bank sells securities in the open market, receiving payments from buyers.
- This withdrawal of money from the economy reduces commercial banks' reserves, thereby lowering their lending capacity.
- The reduced availability of credit decreases consumption and investment, lowering aggregate demand.

2. Reduction in Government Expenditure:

- The government can cut its spending on public works like roads, buildings and rural electrification.
- Reduced government spending decreases money income in the hands of people, leading to a drop in their demand for goods and services.
- This helps eliminate or reduce the inflationary gap by aligning aggregate demand with aggregate supply.

By applying these measures, the economy can stabilize prices and reduce inflation caused by excess demand.

192. Explain the role of the following in correcting the deflationary gap in an economy:

- Open market operations
- Margin requirements

Ans :

OD 2013

A deflationary gap occurs when aggregate demand (AD) is less than aggregate supply (AS) at the full employment level of output, leading to unemployment and under-utilization of resources. To eliminate the gap, aggregate demand must be increased to match aggregate supply.

Measures to Increase Aggregate Demand:

(i) Open Market Operations:

- The central bank engages in buying and selling securities to adjust the money supply and correct the deflationary gap.
- To increase aggregate demand, the central bank buys securities from commercial banks.
- This improves the liquidity position of commercial banks, enabling them to lend more.
- With increased credit availability, people can borrow more, stimulating spending and raising aggregate demand.

(ii) Reduction in Margin Requirements:

- When extending loans, commercial banks do not advance the full value of collateral; they maintain a margin. For example, they may lend only 80% of the value of a security, keeping 20% as a margin.
- To address the deflationary gap, banks reduce the margin requirement, enabling borrowers to receive more credit against their securities.
- This increases borrowing capacity, encouraging higher expenditure and subsequently boosting aggregate demand.

Ans :

OD 2022

(a) As we know,

$$\begin{aligned} \text{MPS} &= \frac{\text{Change in Savings } (\Delta S)}{\text{Change in Income } (\Delta Y)} \\ &= \frac{30 - 0}{150 - 100} = \frac{30}{50} = 0.6 \end{aligned}$$

(b) At zero level of income, the consumption is called autonomous consumption.

Autonomous consumption

$$\begin{aligned} &= \text{Income} - \text{Savings} \\ &= 0 - (-20) = 20 \end{aligned}$$

- 200.** In an economy 75 percent of the increase in income is spent on consumption. Investment increased by ₹1,000 crore. Calculate the total increase in income on the basis of given information.

Ans :

OD 2022

Given. MPC = 75% or 0.75

Change in investment

$$(\Delta I) = 1000$$

As we know,

$$\begin{aligned} \text{Multiplier } (K) &= \frac{1}{1 - \text{MPC}} \\ &= \frac{1}{1 - 0.75} = \frac{1}{0.25} \\ &= \frac{100}{25} = 4 \end{aligned}$$

We also know that,

$$\begin{aligned} K &= \frac{\Delta Y}{\Delta I} \\ 4 &= \frac{\Delta Y}{1,000} \end{aligned}$$

 ΔY (Increase in Income) = ₹4,000 crore

- 201.** In an economy, the ratio of average propensity to consume and average propensity to save is 5 : 3. The level of income is ₹6000. How much are the savings? Calculate.

Ans :

OD 2010

Given:

$$\text{APC} : \text{APS} = 5 : 3$$

$$\text{APC} = \frac{5}{8} \text{ and } \text{APS} = \frac{3}{8}$$

Income (Y) = 6,000

We know that,

$$\begin{aligned} \text{APS} &= \frac{S}{Y} \\ \frac{3}{8} &= \frac{S}{6,000} \end{aligned}$$

$$8S = 18,000$$

$$\text{Savings, } S = \frac{18,000}{8} = 2,250$$

- 202.** In an economy, the consumption expenditure is ₹8,750 crore and the ratio of average propensity to consume and average propensity to save is 7 : 1. Calculate the level of income in the economy.

Ans :

OD 2010

$$\text{Given: Let } \text{APC} = \frac{7}{8} \quad (\text{APC} : \text{APS} = 7 : 1)$$

Consumption,

$$C = 8,750$$

We know that,

$$\begin{aligned} \text{APC} &= \frac{C}{Y} \\ \frac{7}{8} &= \frac{8,750}{Y} \end{aligned}$$

Therefore, Income,

$$Y = \frac{8,750 \times 8}{7} = ₹10,000 \text{ crore}$$

- 203.** Given that national income is ₹80 crore and consumption expenditure ₹64 crore, find out average propensity to save. When income rises to ₹100 crore and consumption expenditure to ₹78 crore, what will be the average propensity to consume and the marginal propensity to consume?

Ans :

OD 2011

National Income,

$$Y = 80; \text{ Consumption, } C = 64;$$

$$\text{Saving, } S = Y - C = 80 - 64 = 16$$

$$\text{We know, } \text{APS} = \frac{S}{Y} = \frac{16}{80} = 0.2$$

After rise in the Income:

$$\text{New Income, } Y_1 = 100$$

Change in Income

$$(\Delta Y) = 100 - 80 = 20$$

New Consumption,

$$C_1 = 78$$

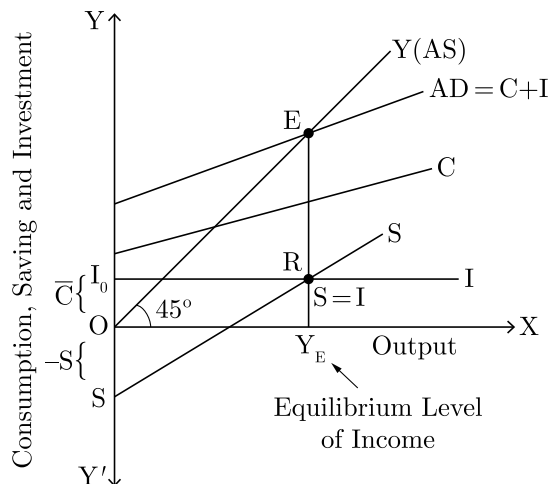
Change in Consumption

$$(\Delta C) = 78 - 64 = 14$$

$$\text{APC} = \frac{C_1}{Y_1} = \frac{78}{100} = 0.78$$

$$\text{MPC} = \frac{\Delta C}{\Delta Y} = \frac{14}{20} = 0.70$$

- 204.** In an economy, as a result of increase in investment by ₹100 crore, national income rises by ₹1,000 crore. Find marginal propensity to consume.



Equation (1) and (2) are the two approaches for basic equilibrium for determination of national income. At the equilibrium level of national income, actual saving and investment are also equal. This implies that at equilibrium level of income, the part of income which is left after consumption is demanded by business firms for investment.

At equilibrium level of income, equality of aggregate supply (AS) and aggregate demand (AD) and that of S and I can be explained with the help of the diagram given. In the diagram, OY is aggregate supply line and $(C + I)$ is aggregate demand line which intersect each other at point E where equilibrium level of income is OYE . In the same diagram saving (SS) and investment (IOI) lines intersect at point R , where the level of income is OYE . Therefore, at OYE level of income AS is equal to AD and S is equal to I .

- (i) What happens when $AD > AS$: It means that the buyers are planning to buy more goods and services than the producers are planning to produce (i.e., supply). In this situation, inventories start falling and come below the desired level. To bring back the inventories to the desired level, the producers expand production. This raises the income level, which keeps on rising till AD and AS are equal again.
- (ii) What happens when $AD < AS$: It means that the buyers are planning to buy less than what the producers are planning to produce. As a result, inventories start rising and move above the desired level. So the producers cut back on production and lay off workers. This reduces the income level, i.e., AS . This downward trend continues till AD and AS once again become equal.

187. Explain the meaning of under-employment equilibrium. Explain two measures by which full employment equilibrium can be reached.

Ans :

OD 2013

Under-employment equilibrium occurs when the equilibrium level of income is below the full-employment level of output. In this situation, aggregate demand (AD) is insufficient to utilize all available resources, resulting in unemployment. To achieve full-employment equilibrium, aggregate demand must be increased.

Measures to Increase Aggregate Demand:

1. Lowering the Bank Rate:
 - The bank rate is the interest rate the central bank charges commercial banks for credit.
 - There is an inverse relationship between the bank rate and demand for credit.
 - In a scenario of deficient demand, the central bank lowers the bank rate, making credit cheaper.
 - This reduction in the interest rate encourages borrowing, increases credit demand and boosts aggregate demand.
2. Open Market Operations:
 - These involve the buying and selling of securities by the central bank in the open market.
 - During deficient demand, the central bank buys securities, paying sellers and increasing the money supply.
 - The money flows into commercial banks as deposits, enhancing their lending capacity.
 - With more accessible credit, borrowing increases, further raising aggregate demand.

By implementing such measures, the economy can move closer to full-employment equilibrium, increasing output and reducing unemployment.

188. Explain all the changes that will take place in an economy when aggregate demand is not equal to aggregate supply.

Ans :

OD 2013

When $AD < AS$: It is not necessary that equilibrium level in an economy always takes place at the full-employment level. It may take place before the stage of full-employment and also it may take place after the stage of full-employment. If equilibrium level takes place before the full employment level, it is a case of deficient demand.

$$MPS = \frac{1}{K} = \frac{1}{5} = 0.2$$

$$MPC = 1 - MPS = 1 - 0.2 = 0.8$$

- 210.** In an economy 20 per cent fall in investment results in 40 per cent fall in income. Calculate the value of marginal propensity to consume.

Ans :

OD 2012

We know, $K = \frac{\Delta Y}{\Delta I} = \frac{0.4}{0.2} = 2$

Since, $K = \frac{1}{MPS}$

$$MPS = \frac{1}{K}$$

$$2 = \frac{1}{K}$$

$$K = \frac{1}{2}$$

$$MPC = 1 - MPS$$

$$= 1 - \frac{1}{2} = \frac{1}{2} \text{ or } 0.5$$

- 211.** Marginal propensity to consume is zero. Calculate the change in income if investment falls by ₹1,000 crore.

Ans :

OD 2012

Given: $MPC = 0$

$$MPS = 1 - MPC = 1 - 0 = 1$$

Multiplier, $K = \frac{1}{MPS} = \frac{1}{1} = 1$

We know that,

$$K = \frac{\Delta Y}{\Delta I}$$

$$1 = \frac{\Delta Y}{\Delta I}$$

$$\Delta Y = 1 \times -1,000 = -1,000$$

Income will fall by ₹1,000 crore.

- 212.** In an economy, income increases from ₹5,000 crore to ₹6,000 crore as a result of 20 per cent increase in investment. Calculate the value of investment multiplier.

Ans :

OD 2012

Given: $\Delta Y = ₹6,000 - ₹5,000$
 $= ₹1,000 \text{ crore}$

As we know, $K = \frac{\Delta Y}{\Delta I}$

$$\% \text{ Change in income} = \frac{1,000}{5,000} \times 100 = ₹20$$

We know that,

$$K = \frac{\Delta Y}{\Delta I}$$

$$K = \frac{20}{20} = 1$$

- 213.** In an economy investment increases from 300 to 500. As a result of this equilibrium level of income increases by 2,000. Calculate the marginal propensity to consume.

Ans :

OD 2012

Given: $\Delta Y = 2000$,

$$\Delta I = 500 - 300 = 200$$

As we know,

$$K = \frac{\Delta Y}{\Delta I} = \frac{2,000}{200} = 10$$

Also, $K = \frac{1}{1 - MPC}$

$$10 = \frac{1}{1 - MPC}$$

$$10 - 10 MPC = 1$$

$$10 - 1 = 10 MPC$$

$$9 = 10 MPC$$

$$MPC = \frac{9}{10} = 0.9$$

Marginal propensity to consume, $MPC = 0.9$

- 214.** In an economy 20 per cent of increased income is saved. How much will be the increase in income if investment increases by 10,000? Calculate.

Ans :

OD 2012

Given: $MPS = 20\% = \frac{20}{100} = 0.2$

As we know, $K = \frac{1}{MPS} = \frac{1}{0.2} = \frac{10}{2} = 5$

Also, $K = \frac{\Delta Y}{\Delta I} = \frac{\Delta Y}{10,000} = 5$

$$\Delta Y = 50,000$$

Therefore, increase in investment by ₹10,000, increases the income by ₹50,000.

- 215.** In an economy investment is increased by ₹300 crore. If marginal propensity to consume is $\frac{2}{3}$, calculate increase in national income.

Ans :

OD 2014

Given: $MPC = \frac{2}{3}$, $\Delta I = ₹300 \text{ crore}$, $\Delta Y = ?$

Multiplier, $K = \frac{1}{1 - MPC} = \frac{1}{1 - \frac{2}{3}} = 3$

$$10,000 = 8,100 + I$$

$$\begin{aligned}\text{Investment Expenditure, } I \\ &= 10,000 - 8,100 \\ &= ₹1,900 \text{ crore}\end{aligned}$$

228. Suppose an economy is in equilibrium. From the following data, calculate Investment Expenditure in the economy:

- (i) National Income = ₹40,000 crore
- (ii) Marginal Propensity to Consume (MPC) = 0.8
- (iii) Autonomous Consumption ($\bar{C}$) = ₹100 crore

Ans : OD 2017

$$\begin{aligned}\text{Given: } Y &= ₹40,000 \text{ crore, MPC} = 0.8, \\ \text{Autonomous consumption,} \\ \bar{C} &= ₹100 \text{ crore}\end{aligned}$$

At equilibrium,

$$\begin{aligned}Y &= C + I \\ Y &= \bar{C} + (\text{MPC}) Y + I \\ (C &= \bar{C} + (\text{MPC}) Y)\end{aligned}$$

$$40,000 = 100 + (0.8) 40,000 + I$$

$$40,000 = 100 + 32,000 + I$$

$$\begin{aligned}\text{Investment Expenditure,} \\ I &= 40,000 - 32,100 \\ &= ₹7,900 \text{ crore}\end{aligned}$$

229. Calculate equilibrium level of income from following:

- (i) Consumption expenditure at zero income = ₹40
- (ii) Marginal Propensity to Consume = 0.8
- (iii) Investment = ₹80

Ans : OD 2013

$$\begin{aligned}\text{Here: MPC } (c) &= 0.8, \text{ Investment, } I = ₹80 \\ \text{Autonomous Expenditure,}\end{aligned}$$

$$a = ₹40$$

$$\begin{aligned}\text{Now, } Y &= a + cY + I \\ Y &= 40 + (0.8) Y + 80 \\ Y &= 120 + 0.8 Y\end{aligned}$$

$$\text{or } Y - 0.8 Y = 120$$

$$0.2 Y = 120$$

$$Y = \frac{120}{0.2} = 600$$

$$\begin{aligned}\text{Therefore, Income,} \\ Y &= ₹600\end{aligned}$$

230. Calculate Marginal Propensity to Consume from the following:

- (i) Consumption expenditure at zero income = ₹70
- (ii) Equilibrium income = ₹700
- (iii) Investment = ₹140

Ans : OD 2013

Here: Equilibrium Income,

$$Y = ₹700$$

$$\text{Investment, } I = ₹140, a = ₹70$$

$$\text{Now, } Y = a + cY + I$$

$$700 = 70 + c(700) + 140$$

$$700 - 210 = c(700)$$

$$c = \frac{490}{700} = 0.7 \quad \text{MPC} = 0.7$$

231. $S = -100 + 0.2Y$ is the saving function in an economy. Investment expenditure is 5,000. Calculate the equilibrium level of income.

Ans : OD 2015

$$\text{Given } S = -100 + 0.2Y \text{ and } i = 5,000$$

At equilibrium level of income, $S = I$

$$-100 + 0.2Y = 5000$$

$$0.2Y = 5000 + 100 = 5,100$$

$$Y = \frac{5,100}{0.2} = \frac{51,000}{2}$$

$$= 25,500$$

232. Suppose an economy is in equilibrium. From the following data, calculate Investment Expenditure in the economy:

- (i) National Income = ₹20,000 crore.
- (ii) Marginal Propensity to Consume (MPC) = 0.8
- (iii) Autonomous consumption ($\bar{C}$) = ₹100 crore.

Ans : OD 2020

$$\text{Given: } Y = ₹20,000 \text{ crore, MPC} = 0.8$$

$$\begin{aligned}\text{Autonomous consumption,} \\ \bar{C} &= ₹100 \text{ crore}\end{aligned}$$

At equilibrium,

$$Y = C + I$$

$$\text{Therefore, } Y = \bar{C} + (\text{MPC}) Y + I$$

$$(C = \text{Autonomous consumption} + (\text{MPC}) Y$$

$$20,000 = 100 + (0.8) 20,000 + I$$

$$20,000 = 100 + 16,000 + I$$

$$I = 20,000 - 16,100$$

$$Y - 0.8Y = 1,000$$

$$0.2Y = 1,000$$

$$Y = \frac{1000}{0.2}$$

National Income, $Y = ₹5,000$

- 223.** An economy is in equilibrium. Its National Income is ₹5,000 and autonomous consumption expenditure is ₹500. What is the total consumption expenditure if marginal propensity to consume is 0.7?

Ans :

FOREIGN 2011

Given: $Y = ₹5,000$, $MPC = 0.7$

Autonomous Consumption,

$$\bar{C} = 500$$

As we know, $C = \bar{C} + MPC(Y)$

$$= 500 + 0.7(5000)$$

$$= 500 + 3,500 = 4,000$$

Consumption expenditure

$$= ₹4,000$$

- 224.** Find National Income from the following:

Autonomous consumption = ₹100

Marginal propensity to consume = 0.80

Investment = ₹50

Ans :

COMP 2021

Given: Autonomous consumption

$$(\bar{C}) = ₹100$$

and $MPC(b) = ₹0.80$

and Investment

$$(I) = ₹50$$

$$Y = \bar{C} + bY + I$$

$$Y = 100 + 0.8Y + 50$$

$$0.2Y = 150$$

$$Y = \frac{150}{0.2}$$

$$Y = 750$$

So, National Income is ₹750.

- 225.** Find National Income from the following:

Autonomous Consumption = ₹100

Marginal propensity to consume = 0.60

Investment = ₹200

Ans :

OD 2012

Given: Autonomous Consumption

$$(a) = 100$$

$$MPC \quad (b) = 0.60$$

$$\text{Investment} \quad (I) = 200$$

$$\text{Income} \quad (Y) = a + bY + I$$

$$= 100 + 0.6Y + 200$$

$$Y(1 - 0.6) = 100 + 200 = 300$$

$$Y(0.4) = 300$$

$$Y = 300 \times \frac{10}{4}$$

$$Y = ₹750$$

Therefore, National Income is ₹750.

- 226.** Find Investment from the following:

National Income = ₹600

Autonomous Consumption = ₹150

Marginal propensity to consume = 0.70

Ans :

OD 2012

Given: National Income

$$(Y) = ₹600$$

Autonomous Consumption

$$(a) = ₹150$$

$$MPC \quad (b) = 0.70 \quad Y = a + bY + I$$

$$\text{or} \quad 600 = 150 + (0.7 \times 600) + I$$

$$\text{or} \quad 600 = 150 + 420 + I$$

$$\text{or} \quad 600 - 570 = I$$

$$I = 30$$

- 227.** Suppose an economy is in equilibrium. From the following data, calculate investment expenditure in economy:

(a) National Income (Y) = ₹10,000 crore

(b) Marginal Propensity to Save (MPS) = 0.2

(c) Autonomous Consumption ($\bar{C}$) = ₹100 crore

Ans :

OD 2007

Given: $Y = ₹10,000$ crore, $MPS = 0.2$,

Autonomous consumption,

$$\bar{C} = ₹100 \text{ crore}$$

At equilibrium,

$$Y = C + I$$

$$Y = \bar{C} + (MPC)Y + I$$

$[\bar{C} = \text{autonomous consumption} + (MPC)Y \text{ and } MPC = 1 - MPS]$

$$10,000 = 100 + (1 - 0.2)10,000 + I$$

$$10,000 = 100 + (0.8)10,000 + I$$

Therefore, $Y = \bar{C} + (1 - \text{MPS}) Y + I$
 $\bar{C}$ = autonomous consumption + (MPC) Y and
 $\text{MPC} = 1 - \text{MPS}$

$$10,000 = 200 + (0.8) 10,000 + I$$

$$10,000 = 200 + 8,000 + I$$

$$I = 10,000 - 8,200$$

$$= ₹1,800 \text{ crore}$$

238. An economy is in equilibrium. Calculate Marginal Propensity to Consume:

National income = 1,000

Autonomous consumption expenditure = 200

Investment expenditure = 100

Ans :

OD 2016

Given: $Y = ₹1,000$, $\bar{C} = 200$, $I = 100$,

$\text{MPC} = ?$

Consumption function equation,

$$C = \bar{C} + (\text{MPC}) Y \quad \dots(1)$$

$$C = 200 + (\text{MPC}) 1,000$$

At equilibrium level,

$$Y = C + I$$

$$1,000 = 200 + (\text{MPC}) 1,000 + 100$$

.....[From (1)]

$$1,000 - 200 - 100 = (\text{MPC}) 1,000$$

$$700 = (\text{MPC}) 1,000$$

$$\text{MPC} = \frac{700}{1000} = 0.7$$

239. On the basis of following information, identify whether the economy is in equilibrium or not:

S.No.	Particulars	Amount
(i)	Autonomous Consumption and Investment Expenditure ($\bar{A}$)	₹500 crore
(ii)	Marginal Propensity to Save (MPS)	0.2
(iii)	National Income	₹4,000 crore

Ans :

COMP 2020

Given: $\bar{A} = \bar{C} + I = ₹500$ crore, $\text{MPS} = 0.2$;

$$Y = ₹4,000$$

We know that,

$$AD = C + I$$

$$AD = \bar{C} + \text{MPC}(Y) + I$$

$$AD = \bar{C} + I + \text{MPC}(Y)$$

$$AD = 500 + (1 - 0.2)(4000)$$

$$(\text{MPC} = 1 - \text{MPS})$$

$$AD = 500 + 3200 = 3700 \text{ crores}$$

Now, $Y = AS = ₹4000$ crore

At equilibrium level of Income, $AD = AS$

Since, AD (₹3,700 crore) is less than AS (₹4,000 crore), the economy is not in equilibrium.

240. On the basis of following information, identify whether the economy is in equilibrium or not:

S.No.	Particulars	Amount
(i)	Autonomous Consumption and Investment Expenditure ($\bar{A}$)	₹200 crore
(ii)	Marginal Propensity to Consume (MPS)	0.70
(iii)	National Income	₹1,000 crore

Ans :

DELHI 2020

Given: $\bar{A} = \bar{C} + I = ₹200$ crore, $\text{MPC} = 0.70$;

$$Y = ₹1,000$$

We know that,

$$AD = C + I$$

$$AD = \bar{C} + \text{MPC}(Y) + I$$

$$AD = 200 + 0.70(1000)$$

$$(\bar{C} + I = \bar{A}) \text{ (given)}$$

$$AD = 200 + 700 = ₹900 \text{ crore}$$

At equilibrium,

$$AD = AS$$

Since, AD (₹900 crore) is less than AS (₹1000 crore), the economy is not in equilibrium.

241. On the basis of following information, identify whether the economy is in equilibrium or not :

S.No.	Particulars	Amount
(i)	Autonomous Consumption and Investment Expenditure ($\bar{A}$)	₹700 crore
(ii)	Marginal Propensity to Consume (MPS)	0.8
(iii)	National Income	₹4,000 crore

$$= ₹3,900$$

233. Calculate equilibrium level of income:

- (a) Autonomous consumption = 200
- (b) Marginal propensity to consume = 0.9
- (c) Investment expenditure = 1,000

Ans :

OD 2015

Given, Autonomous Consumption

$$(\bar{C}) = 200 \text{ MPC} = 0.9, I = 1,000$$

At equilibrium level

$$Y = C + I \quad \dots(1)$$

and $C = \bar{C} + bY$ where $[b = \text{MPC}]$

$$C = 200 + (0.9) Y$$

$$Y = 200 + (0.9) Y + 1000 \text{ [From (1)]}$$

$$Y - (0.9) Y = 1200$$

$$(0.1) Y = 1200$$

$$Y = \frac{1200}{0.1} = 12,000$$

234. In an economy autonomous consumption is 500, marginal propensity to save is 0.2 and investment expenditure is 2,000. Calculate its equilibrium level of income.

Ans :

OD 2015

Given: $\bar{C} = 500$, $\text{MPS} = 0.2$, $I = 2,000$

We know that,

$$\text{MPC} = 1 - \text{MPS}$$

$$\text{MPC} = 0.8 = 1 - 0.2$$

Consumption function,

$$C = \bar{C} + bY \quad \dots\text{where } [b = \text{MPC}]$$

$$C = 500 + 0.8 Y$$

At equilibrium level,

$$Y = C + I$$

$$Y = 500 + 0.8 Y + 2,000$$

$$Y - 0.8 Y = 500 + 2,000$$

$$0.2 Y = 2,500$$

$$Y = \frac{2,500}{0.2} = \frac{25,000}{2}$$

$$Y = 12,500$$

235. An economy is in equilibrium. Calculate Marginal Propensity to Consume:

National income = 1,000

Autonomous consumption expenditure = 200

Investment expenditure = 100

Ans :

OD 2016

Given: $Y = 1,000$, $\bar{C} = 200$, $I = 100$

$\text{MPC} = ?$

Consumption,

$$C = \bar{C} + (\text{MPC}) Y \quad \dots(1)$$

$$C = 200 + (\text{MPC}) 1,000$$

At equilibrium level,

$$Y = C + I$$

$$1,000 = 200 + (\text{MPC}) 1,000 + 100$$

.....[From (1)]

$$1,000 - 200 - 100 = (\text{MPC}) 1,000$$

$$700 = (\text{MPC}) 1,000$$

$$\text{MPC} = \frac{700}{1000} = 0.7$$

236. An economy is in equilibrium. Find investment expenditure:

National income = 1,200

Autonomous consumption expenditure = 150

Marginal Propensity to consume = 0.8

Ans :

OD 2016

Given: $Y = 1,200$, $\bar{C} = 150$, $\text{MPC} = 0.8$, $I = ?$

Consumption function,

$$C = \bar{C} + (\text{MPC}) Y$$

$$C = 150 + (0.8) 1,200$$

$$C = 150 + 960 = 1,110$$

At equilibrium level of national income,

$$Y = C + I$$

$$I = Y - C$$

Investment,

$$I = 1,200 - 1,110 = 90$$

237. Suppose, an economy is in equilibrium. From the following data, calculate Investment Expenditure in the economy:

(i) National Income = ₹10,000 crore

(ii) Marginal Propensity to Save (MPS) = 0.2

(iii) Autonomous Consumption ($\bar{C}$) = ₹200 crore

Ans :

OD 2021

Given: $Y = ₹10,000$ crore, $\text{MPS} = 0.2$

Autonomous consumption,

$$\bar{C} = ₹200$$

At equilibrium,

$$Y = C + I$$

NODIA

Also, $K = \frac{\Delta Y}{\Delta I}$
 $3 = \frac{\Delta Y}{300}$

Increase in national income, $\Delta Y = ₹900$ crore

- 216.** Suppose marginal propensity to consume is 0.8. How much increase in investment is required to increase national income by ₹2000 crore? Calculate.

Ans : OD 2016

Given: $MPC = 0.8$, $\Delta Y = ₹2,000$ crore,

$$\Delta I = ?$$

$$K = \frac{1}{1 - MPC}$$

$$= \frac{1}{1 - 0.8} = \frac{1}{0.2} = 5$$

Also, $K = \frac{\Delta Y}{\Delta I}$

$$5 = \frac{2000}{\Delta I}$$

$$\Delta I = \frac{2,000}{5} = ₹400 \text{ crore}$$

- 217.** In an economy an increase in investment by ₹100 crore led to 'increase' in national income by ₹1000 crore. Find marginal propensity to consume.

Ans : OD 2016

Given: $\Delta I = ₹100$ crore,

$\Delta Y = ₹1,000$ crore

As we know,

$$K = \frac{\Delta Y}{\Delta I} = \frac{1,000}{100} = 10$$

Also, $K = \frac{1}{1 - MPC}$

$$10 = \frac{1}{1 - MPC}$$

$$10 - 10 MPC = 1$$

$$10 - 1 = 10 MPC$$

$$MPC = \frac{9}{10} = 0.9$$

- 218.** If marginal propensity to consume is 0.5, calculate the value of investment multiplier.

Ans : OD 2017

Given: $MPC = 0.5$, $K = ?$

$$K = \frac{1}{1 - MPC} = \frac{1}{1 - 0.5} = 2$$

Investment multiplier, $K = 2$

- 219.** If marginal propensity to consume is 0.9, calculate the value of investment multiplier.

Ans : OD 2017

Given: $MPC = 0.9$, $K = ?$

$$K = \frac{1}{1 - MPC} = \frac{1}{1 - 0.9} = 10$$

Investment multiplier, $K = 10$

- 220.** National income increases by ₹2,000 crore due to an additional investment of ₹400 crore. Calculate the value of investment multiplier.

Ans : OD 2017

Given: $\Delta Y = ₹2,000$ crore

$\Delta I = ₹400$ crore

Investment multiplier,

$$K = \frac{\Delta Y}{\Delta I} = \frac{2000}{400} = 5$$

- 221.** If in an economy:

Change in initial Investments

$(\Delta I) = ₹500$ crore

Marginal Propensity to Save

$(MPS) = 0.2$

Find the values of the following:

(a) Investment multiplier (K)

(b) Change in final income (ΔY)

Ans : COMP 2019

(a) $\Delta I = ₹500$ crore; $MPS = 0.2$

$$K = \frac{1}{MPS} = \frac{1}{0.2} = 5$$

(b) $\Delta Y = ?$

$$K = \frac{\Delta Y}{\Delta I}$$

$$5 = \frac{\Delta Y}{₹500}$$

$$\Delta Y = ₹500 \times 5 = ₹2,500 \text{ crore}$$

- 222.** An economy is in equilibrium. Its consumption function is $C = 300 + 0.8Y$ where C is consumption expenditure and Y is income and investment is ₹700. Find National Income.

Ans : FOREIGN 2011

As we know,

$$Y = C + I$$

where $[C = 300 + 0.8Y, I = 700]$ (Given)

Substituting the values, we get

$$Y = 300 + 0.8Y + 700$$

Ans :

SQP 2020

Given: $\bar{A} = \bar{C} + I = ₹700$ crore, $MPC = 0.80$;

$$Y = ₹4,000$$

We know that,

$$AD = C + I$$

$$AD = \bar{C} + MPC(Y) + I$$

$$AD = 700 + 0.80(4,000) \\ (\bar{C} + I = \bar{A}) \text{ (given)}$$

$$AD = 700 + 3,200 = ₹3,900 \text{ crore}$$

At equilibrium,

$$AD = AS$$

Now, $AS = Y = ₹4000$ croreSince, AD (₹3900 crore) is less than AS (₹4000 crore), the economy is not in equilibrium.

- 242.** An economy is in equilibrium. Find investment expenditure:

National income = 1,200

Autonomous consumption expenditure = 150

Marginal Propensity to consume = 0.8

Ans :

OD 2016

Given: $Y = 1,200$, $\bar{C} = 150$, $MPC = 0.8$

$$I = ?$$

Consumption function,

$$C = \bar{C} + (MPC) Y$$

$$C = 150 + (0.8)1,200$$

$$C = 150 + 960 = 1,110$$

At equilibrium level of national income,

$$Y = C + I$$

$$1,200 = 1,110 + I$$

Investment, $I = 1,200 - 1,110 = 90$

- 243.** An economy is in equilibrium. Find investment expenditure:

National Income = 1000

Autonomous Consumption = 100

Marginal Propensity to consume = 0.8

Ans :

OD 2016

Given: $Y = 1,000$, $\bar{C} = 100$, $MPC = 0.8$

$$I = ?$$

Consumption function,

$$C = \bar{C} + (MPC) Y$$

$$C = 100 + (0.8)1,000$$

$$C = 100 + 800 = 900$$

At equilibrium level of national income,

$$Y = C + I$$

$$1,000 = 900 + I$$

Investment, $I = 1,000 - 900 = 100$

- 244.** From the following data calculate marginal propensity to consume.

(i) Equilibrium level of income = 2,000

(ii) Autonomous consumption = 200

(iii) Investment expenditure = 800

Ans :

OD 2016

Given: $Y = 2,000$, $\bar{C} = 200$, $I = 800$

We know that,

$$C = \bar{C} + (MPC) Y$$

and

$$Y = C + I$$

$$Y = \bar{C} + (1 - MPS) Y + 200$$

$$2,000 = 200 + (MPC)2,000 + 800$$

$$MPC = \frac{1,000}{2,000} = 0.5$$

- 245.** Calculate investment expenditure in the economy from the following data:

(i) Equilibrium level of income = 10,000

(ii) Autonomous consumption = 500

(iii) Marginal propensity to consume = 0.75

Ans :

OD 2016

Given: $Y = 10,000$, $\bar{C} = 500$, $MPC = 0.75$

We know that,

$$C = \bar{C} + (MPC) Y$$

and

$$Y = C + I$$

$$Y = \bar{C} + (1 - MPS) Y + I$$

$$10,000 = 500 + (0.75) \times 10,000 + I$$

$$I = 10,000 - 500 - 7,500$$

$$I = 2,000$$

- 246.** From the following data calculate investment expenditure:

(i) Marginal propensity to save = 0.2

(ii) Equilibrium level of income = 22,500

(iii) Autonomous consumption = 500

Ans :

OD 2016

Given: $MPS = 0.2$, $Y = 22,500$,

$$\bar{C} = 500, I = ?$$

We know that,

$$MPC = 1 - MPS$$

$$MPC = 1 - 0.2 = 0.8$$

At equilibrium level,

$$Y = C + I$$

and $C = \bar{C} + (MPC) Y$

$$Y = \bar{C} + (MPC) Y + I$$

$$22,500 = 500 + (0.8) 22,500 + I$$

$$I = 22,500 - 500 - 18,000$$

$$I = 4,000$$

- 247.** In an economy investment expenditure is 1,000, autonomous consumption is 500 and marginal propensity to save is 0.2. Calculate its equilibrium level of income.

Ans :

OD 2016

Given: $I = 1,000, \bar{C} = 500,$

$$MPS = 0.2, Y = ?$$

We know that,

$$MPC = 1 - MPS$$

$$MPC = 1 - 0.2 = 0.8$$

At equilibrium level,

$$Y = C + I$$

and $C = \bar{C} + (MPC) Y$

$$Y = \bar{C} + (MPC) Y + I$$

$$Y = 500 + (0.8) Y + 1,000$$

$$0.2 Y = 1,500$$

$$Y = \frac{1,500}{0.2}$$

$$Y = 7,500$$

- 248.** Calculate consumption expenditure in the economy whose equilibrium level of income is 20,000, autonomous consumption is 500 and marginal propensity to save is 0.5.

Ans :

COMP 2004

Given: $Y = 20,000, \bar{C} = 500, MPS = 0.5$

Now, $MPC = 1 - MPS$

$$MPC = 1 - 0.5 = 0.5$$

As we know, $C = \bar{C} + MPC (Y)$

$$C = 500 + (0.5) 20,000$$

$$\begin{aligned} \text{Consumption } C &= 500 + 10,000 \\ &= 10,500 \end{aligned}$$

- 249.** In an economy total savings are ₹2,000 crore and the ratio of average propensity to save and average propensity to consume is 2 : 7. Calculate the level of income in the economy.

Ans :

OD 2016)

Given: $S = 2,000, APC : APS = 2 : 7$

As we know,

$$APS = \frac{S}{Y}$$

$$\frac{2}{9} = \frac{2,000}{Y}$$

$$Y = \frac{2,000 \times 9}{2}$$

$$Y = ₹9,000 \text{ crore}$$

- 250.** Find the value of multipliers given:

- marginal propensity to consume = 1 and
- marginal propensity to save = 1.

Ans :

OD 2010

- When $MPC = 1,$

$$K = \frac{1}{MPS} = \frac{1}{1 - MPC}$$

- When $MPS = 1,$

$$K = \frac{1}{MPS} = \frac{1}{1}$$

$$K = 1$$

- 251.** From the following data calculate Investment Multiplier and Equilibrium level Income in the economy.

- Change in initial investment (ΔI) = ₹1,000 crore
- Marginal Propensity to Save (MPS) = 0.5
- Autonomous consumption ($\bar{C}$) = ₹50 crore
- Planned investment = ₹100 crore

Ans :

OD 2024

Given:

Change in initial investment

$$(\Delta I) = ₹1,000 \text{ crore}$$

Marginal Propensity to Save

$$MPS = 0.5$$

Autonomous Consumption,

$$\bar{C} = ₹50 \text{ crore}$$

Planned investment

$$= ₹100 \text{ crore}$$

Investment Multiplier

$$(K) = \frac{1}{MPS} = \frac{1}{0.5} = 2$$

Now, $MPC = 1 - MPS = 1 - 0.5 = 0.5$

At equilibrium,

$$Y = C + I$$

Therefore, $Y = \bar{C} + (MPC) Y + I$

$$[\bar{C} = \text{Autonomous consumption} + (MPC) Y]$$

$$Y = 50 + (0.5) Y + 100$$

$$0.5 Y = 150$$

$$Y = ₹300 \text{ crore}$$

- 252.** If national income is ₹50 crore and saving ₹5 crore, find out average propensity to consume. When income rises to ₹60 crore and saving to ₹9 crore, what will be the average propensity to consume and the marginal propensity to save?

Ans :

OD 2011

Given: National Income

$$(Y) = 50; \text{ Saving } (S) = 5$$

Consumption

$$(C) = Y - S = 50 - 5 = 45$$

$$APC = \frac{C}{Y} = \frac{45}{50} = 0.90$$

After change:

$$\text{Income } (Y_1) = 60$$

Change in Income

$$(\Delta Y) = 60 - 50 = 10$$

Change in Saving

$$(\Delta S) = 9 - 5 = 4$$

Consumption

$$(C_1) = 60 - 9 = 51$$

As we know,

$$APC = \frac{C_1}{Y_1} = \frac{51}{60} = 0.85 \text{ and}$$

$$MPS = \frac{\Delta S}{\Delta Y} = \frac{4}{10} = 0.40$$

- 253.** In an economy the marginal propensity to save is 0.4. National Income in the economy increases by ₹200 crore as a result of change in investment. Calculate the change in investment.

Ans :

OD 2011

$$\text{Multiplier, } K = \frac{1}{MPS} = \frac{1}{0.4} = \frac{10}{4} = 2.5$$

$$\dots(MPS = 0.4 \text{ (given)})$$

$$\Delta Y = 200 \text{ (given)}$$

$$\text{Now, } \Delta I = \frac{\Delta Y}{K}$$

$$\Delta I = \frac{200}{2.5}$$

$$\Delta I = 200 \times \frac{10}{25} = ₹80 \text{ crore}$$

- 254.** If marginal propensity to consume is 0.8, how much will be the value of investment multiplier? Calculate.

Ans :

OD 2017

Given: $MPC = 0.8; K = ?$

$$K = \frac{1}{1 - MPC} = \frac{1}{1 - 0.8}$$

$$= \frac{1}{0.2} = 5$$

Investment multiplier,

$$K = 5$$

- 255.** An economy is in equilibrium. The economy's consumption function is $C = 100 + 0.5 Y$ where C is consumption expenditure and Y is National Income. National Income is 1,000. Find out investment expenditure in the economy.

Ans :

FOREIGN 2011

As we know, $Y = C + I$ or $I = Y - C$

.....where $[Y = 1000, C = 100 + 0.5 Y \text{ (Given)}]$
Substituting these values, we get

$$I = 1,000 - (100 + 0.5 Y)$$

$$I = 1,000 - 100 - 0.5(1,000)$$

$$I = 1,000 - 100 - 500 = 400$$

Therefore, Investment expenditure = 400

- 256.** The consumption function of an economy is: $C = 40 + 0.8 Y$ (amount in ₹ crore). Determine that level of income where average propensity to consume will be one.

Ans :

SQP 2019

Given: $APC = 1$

Average Propensity Consume

$$(APC) = \frac{C}{Y} = 1$$

$$C = Y \quad \dots(1)$$

We have, $C = 40 + 0.8 Y$

$$Y = 40 + 0.8 Y \quad \dots(\text{Using (1)})$$

$$Y - 0.8 Y = 40$$

$$0.2 Y = 40$$

$$Y = \frac{40}{0.2} = 200$$

Therefore, at income level of ₹200 crore, APC will be one.

- 257.** For a hypothetical economy, assuming there is an increase in the Marginal Propensity to Consume (MPC) from 75% to 90% and change in investment to be ₹1,000 crore.

Using the concept of investment multiplier, calculate the increase in income due to change in Marginal Propensity to Consume (MPC).

Ans :

DELHI 2023

MPC	MPS	Investment Multiplier, $K = \frac{1}{MPS}$	Change in Income $\Delta Y = K \times \Delta I$ (₹ in crore)
0.75	0.25	$\frac{1}{0.25} = 4$	$4 \times 1,000 = 4,000$
0.90	0.10	$\frac{1}{0.10} = 10$	$10 \times 1,000 = 10,000$

Change in income due to change in MPC is

$$₹10,000 - ₹4,000 = ₹6,000 \text{ crore.}$$

- 258.** Calculate autonomous consumption expenditure from the following data about an economy which is in equilibrium.

National income = 1,200

Marginal propensity to save = 0.20

Investment expenditure = 100

Ans :

OD 2014

MPC, $b = 1 - MPS = 1 - 0.20 = 0.80$

We know that

$$Y = C + I$$

$$Y = \bar{C} + b(Y) + I \quad (C = \bar{C} + b(Y))$$

$$1,200 = \bar{C} + 0.8(1,200) + 100$$

$$1,200 = \bar{C} + 960 + 100$$

$$\bar{C} = 1,200 - 960 - 100$$

$$= 140$$

Therefore, Consumption expenditure,

$$\bar{C} = 140$$

- 259.** Calculate Marginal Propensity to Consume from the following data about an economy which is in equilibrium.

National income = 2,000

Autonomous consumption expenditure = 200

Investment expenditure = 100

Ans :

OD 2014

Given: National income, $Y = 2,000$

Autonomous consumption expenditure, $\bar{C} = 200$

Investment expenditure, $I = 100$

At equilibrium level of income :

$$Y = C + I$$

$$C = Y - I$$

$$C = 2,000 - 100$$

$$= 1,900$$

Consumption function is given as :

$$C = \bar{C} + b(Y)$$

$$1,900 = 200 + 2,000b$$

$$2,000b = 1,900 - 200$$

$$2,000b = 1,700$$

$$b = \frac{1700}{2000} = 0.85$$

Marginal Propensity to Consume,

$$b = 0.85$$

- 260.** Calculate investment expenditure from the following data about an economy which is in equilibrium:

National income = 1,000

Marginal propensity to save = 0.20

Autonomous consumption expenditure = 100

Ans :

OD 2014

National Income

$$Y = 1,000 \text{ and } MPS = 0.20$$

Autonomous consumption expenditure,

$$\bar{C} = 100$$

$$MPC = b = 1 - MPS$$

$$MPC = 1 - 0.20 = 0.80$$

We know that,

$$Y = C + I$$

$$\dots (AD = AS = Y \text{ and } AD = C + I)$$

$$Y = \bar{C} + b(Y) + I \quad (C = \bar{C} + b(Y))$$

$$I = Y - \bar{C} - b(Y)$$

$$I = 1,000 - 100 - 0.81(1,000)$$

$$I = 1,000 - 100 - 800$$

$$I = 100$$

- 261.** Expenditure from the following data about an economy which is in equilibrium:

National income = 500

Marginal propensity to save = 0.30

Investment expenditure = 100

Ans :

OD 2014

Given: National income,

$Y = 500$; $MPS = 0.30$
 Investment expenditure,
 $I = 100$
 Marginal propensity to consume,
 $MPC = b = 1 - MPS$
 $MPC = b = 1 - 0.30 = 0.70$

We know that,

$$\begin{aligned}
 Y &= C + I & \dots (AD = AS \text{ and } C + I) \\
 Y &= \bar{C} + b(Y) + I & \dots (C = \bar{C} + b(Y)) \\
 500 &= \bar{C} + 0.7(500) + 100 \\
 \bar{C} &= 500 - 350 - 100 = 50
 \end{aligned}$$

Autonomous Consumption,

$$\bar{C} = 50$$

- 262.** An economy is in equilibrium. Calculate national income from the following:

Autonomous consumption = 100
 Marginal propensity to save = 0.2
 Investment expenditure = 200

Ans :

OD 2015

Given: Autonomous consumption,

$$\bar{C} = 100 \text{ and } MPS = 0.2$$

$$MPC = 1 - MPS = 1 - 0.2 = 0.8$$

and $I = 200$

At equilibrium,

$$Y = C + I$$

$$\dots (AD = AS = Y \text{ and } AD = C + I)$$

and $C = \bar{C} + MPC(Y)$

$$Y = \bar{C} + MPC(Y) + I$$

$$Y = 100 + 0.8Y + 200$$

$$Y = 300 + 0.8Y$$

$$Y - 0.8Y = 300$$

$$0.2Y = 300$$

$$Y = \frac{300}{0.2} = 1,500$$

National Income,

$$Y = 1,500$$

- 263.** An economy is in equilibrium. Find autonomous consumption from the following:

National Income = 1,000
 Marginal propensity to consume = 0.8
 Investment expenditure = 100

Ans :

OD 2015

Given: $Y = 1,000$, $MPC = 0.8$, $I = 100$

Autonomous consumption,

$$\bar{C} = ?$$

$$Y = C + I$$

$$\dots (AD = AS = Y \text{ and } AD = C + I)$$

and

$$C = \bar{C} + MPC(Y)$$

$$Y = \bar{C} + MPC(Y) + I$$

$$1,000 = \bar{C} + 0.8 \times 1,000 + 100$$

$$\bar{C} = 1,000 - 100 - 800$$

$$\bar{C} = 100$$

- 264.** An economy is in equilibrium. Find Marginal Propensity to Consume from the following:

National income = 2,000
 Autonomous consumption = 400
 Investment expenditure = 200

Ans :

OD 2015

Given: National Income,

$$Y = 2,000$$

Autonomous Consumption,

$$\bar{C} = 400$$

$$I = 200, MPC(b) = ?, Y = C + I$$

and

$$C = \bar{C} + MPC(Y)$$

$$Y = \bar{C} + b(Y) + I$$

$$\dots (AD = AS = Y \text{ and } AD = C + I)$$

$$2,000 = 400 + b \times 2,000 + 200$$

$$2,000 - 400 - 200 = 2,000b$$

$$b = \frac{1,400}{2,000} = 0.7$$

$$MPC = 0.7$$

- 265.** An economy is in equilibrium. Calculate Investment Expenditure from the following:

National Income = 800
 Marginal Propensity to Save = 0.3
 Autonomous Consumption = 100

Ans :

OD 2015

Given: $Y = 800$

Marginal Propensity to Save, $MPS = 0.3$

Autonomous consumption, $\bar{C} = 100$

Investment Expenditure = ?

$$MPC = 1 - MPS = 1 - 0.3 = 0.7$$

$$Y = C + I$$

$$\dots (AD = AS = Y \text{ and } AD = C + I)$$

- (iii) (b) John Maynard Keynes
(iv) (c) 2.5

293. Read the paragraph given below and answer the questions that follow:

Some economists have suggested that in developing countries like India Keynesian multiplier did not work in real terms, that is, it does not operate to increase income and employment by a multiple of the initial increase in investment.

They have claimed that in underdeveloped countries there was little excess capacity in consumer goods industries and therefore supply of output was inelastic. Therefore, when there is injection of investment and as a result through successive rounds of the operation of multiplier, aggregate demand for consumer goods increases, it results mainly in a rise in money income brought about through rise in prices and not an increase in real national income.

For the working of multiplier in real terms, there should be involuntary open unemployment so that when aggregate demand for goods increases as a consequence of new investment, the adequate supply of workers must be forthcoming to be employed in the production processes of various industries. This condition was not being fulfilled in the under-developed countries where there existed disguised unemployment, especially in the agricultural sector. The disguisedly unemployed workers who are supported by the joint family system could not be easily shifted to be employed in the industries for expansion of output to achieve the multiplier effect.

- (i) The shape of the Keynesian Aggregate Supply before the level of full employment is attained, is _____ elastic.
- (ii) According to classical Economists there always exists _____ equilibrium in the economy.
- (iii) In an economy, investment is increased by ₹2,000 crore. What will be the change in total income, if $MPS = 0.25$.
(a) ₹4,000
(b) ₹6,000
(c) ₹8,000
(d) ₹10,000
- (iv) Investment multiplier and Marginal propensity to consume share a direct relationship. (True/False)

Ans :

COMP 2003

- (i) perfectly
(ii) full employment
(iii) (c) As we know, Multiplier (K)

$$= \frac{1}{MPS} = \frac{1}{0.25} = 4$$

$$\text{Now, } \Delta Y = K \times \Delta I$$

$$= 4 \times ₹2,000 = ₹8000 \text{ crore}$$

- (iv) True

294. Read the paragraph given below and answer the questions that follow:

Aggregate demand is a macroeconomic concept representing the total demand for goods and services in an economy. This value is often used as a measure of economic well-being or growth. Both fiscal policy and monetary policy can impact aggregate demand because they can influence the factors used to calculate it: consumer spending on goods and services, investment spending on business capital goods, government spending on public goods and services, exports and imports.

Fiscal policy affects aggregate demand through changes in government spending and taxation. Those factors influence employment and household income, which then impact consumer spending and investment. Expansionary fiscal policy, usually enacted in response to recessions or employment shocks, increases government spending in areas such as infrastructure, education and unemployment benefits.

Monetary policy impacts the money supply in an economy, which influences interest rates and the inflation rate. It also impacts business expansion, net exports, employment, the cost of debt etc.—all of which directly or indirectly impact aggregate demand. Monetary policy is enacted by central banks by manipulating the money supply in an economy. The money supply influences interest rates and inflation, both of which are major determinants of employment, cost of debt and consumption levels.

- (i) Following is not a component of aggregate demand:
(a) private consumption expenditure
(b) investment expenditure
(c) government expenditure
(d) net factor income earned from abroad

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$$10,000 = \bar{C} + (0.8)10,000 + 1,500$$

$$\bar{C} = 10,000 - 8,000 - 1,500 = 500$$

271. An economy is in equilibrium. From the following data, calculate the marginal propensity to save:

(i) Income = 10,000

(ii) Autonomous consumption = 500

(iii) Consumption expenditure = 8,000

Ans :

OD 2017

Given: $Y = 10,000$; $\bar{C} = 500$; $C = 8,000$; $MPS = ?$

As we know,

$$C = \bar{C} + (MPC)Y$$

$$8,000 = 500 + (MPC) 10,000$$

$$10,000 (MPC) = 7,500$$

$$10,000 (MPC) = 7,500$$

$$MPC = \frac{7,500}{10,000}, \text{ MPC} = 0.75$$

and $MPS = 1 - MPC$

$$MPS = 1 - 0.75 = 0.25$$

272. Complete the following table :

Income	Marginal Propensity to Consume	Saving	Average Propensity to Consume
100	—	40	0.60
200	—	90	—
—	—	125	0.50

Ans :

OD 2012

Income (Y)	Saving (S)	Consumption Expenditure (C = Y - S)	APC ($\frac{C}{Y}$)	MPC ($\frac{\Delta C}{\Delta Y}$)
100	40	60	0.60	—
200	90	110	0.55	0.5
250	125	125	0.50	0.3

273. Complete the following table :

Income	Saving	Marginal Propensity to Consume	Average Propensity to Consume
100	40	—	0.6
200	—	0.5	—
250	120	—	—

Ans :

OD 2012

Income (Y)	Consumption (C)	Saving (S)	MPC ($\frac{\Delta C}{\Delta Y}$)	APC ($\frac{C}{Y}$)
100	60	40	—	0.6
200	110	90	0.5	0.55
250	130	120	0.4	0.52

274. Complete the following table :

Income	Consumption Expenditure	Average Propensity to save	Marginal Propensity to save
200	120	0.4	—
400	220	—	—
—	250	0.5	—

Ans :

OD 2012

Income (Y)	(C)	$S = Y - C$	APS ($\frac{S}{Y}$)	MPS ($\frac{\Delta S}{\Delta Y}$)
200	120	80	0.40	—
400	220	180	0.45	0.5
500	250	250	0.50	0.7

275. Complete the following table:

Income	Marginal Propensity to save	Average Propensity to save	Consumption Expenditure
200	—	0.4	120
400	—	—	220
—	—	0.48	260

Ans :

OD 2012

Income (Y)	C	$S = Y - C$	APS	APC	MPS
200	120	80	0.40	0.60	—
400	220	180	0.45	0.55	0.5
500	260	240	0.48	0.52	0.6

276. Complete the following table:

Income	Consumption Expenditure	Average Propensity to save	Marginal Propensity to save
200	240	0.4	—

Y = National Income

Consumption Function, $C = 50 + 0.5Y$

Investment, $I = 2,000$

$$(i) \quad Y = C + I$$

$$Y = 50 + 0.5Y + 2,000$$

$$\text{or} \quad 0.5Y = 50 + 2,000 = 2,050$$

$$Y = \frac{2050}{0.5} = 4,100$$

Therefore, Equilibrium level of National Income = 4,100.

$$(iii) \text{ Given: } C = 50 + 0.5Y$$

$$\text{At } Y = 4,100$$

$$C = 50 + 0.5(4,100)$$

$$C = 50 + 2,050 = 2,100$$

Therefore, Consumption expenditure at equilibrium level = 2,100.

- 286.** From the data given below about an economy, Calculate: (a) investment expenditure and (b) consumption expenditure:

$$(i) \text{ Equilibrium level of income } \quad 5,000$$

$$(ii) \text{ Autonomous consumption } \quad 500$$

$$(iii) \text{ Marginal propensity to consume } \quad 0.4$$

Ans : OD 2013

$$\text{Income, } Y = 5,000;$$

$$\text{Autonomous consumption, } a = 500;$$

$$\text{MPC, } c = 0.4$$

$$(a) \text{ Now, } Y = C + I$$

$$\text{or} \quad Y = a + cY + I \quad [C = a + cY]$$

$$\text{or} \quad 5,000 = 500 + 0.4(5,000) + I$$

$$\text{or} \quad 5,000 = 500 + 2,000 + I$$

$$I = 5,000 - 2,500 = 2,500$$

$$\text{Investment expenditure, } I = 2,500$$

$$(b) \text{ Consumption expenditure,}$$

$$C = Y - I = 5,000 - 2,500 = 2,500$$

- 287.** In an economy $C = 200 + 0.75Y$ is the consumption function where C is consumption expenditure and Y is national income. Investment expenditure is 4,000. Calculate equilibrium level of income and consumption expenditure.

Ans : OD 2013

$$\text{Consumption function, } C = 200 + 0.75Y,$$

$$\text{Investment, } I = 4,000$$

$$\text{Now, } Y = C + I$$

$$\text{or} \quad Y = 200 + 0.75Y + 4,000$$

$$Y - 0.75Y = 4,200$$

$$\text{or} \quad 0.25Y = 4,200$$

$$Y = 4,200 \times \frac{100}{25}$$

$$\text{Income expenditure, } Y = 16,800$$

$$\text{Consumption expenditure,}$$

$$C = 200 + 0.75Y$$

$$C = 200 + 0.75(16,800)$$

$$C = 200 + 12,600 = 12,800$$

- 288.** From the following data about an economy, calculate its equilibrium level of income:

$$(i) \text{ Marginal propensity to consume } = 0.5$$

$$(ii) \text{ Autonomous consumption } = 300$$

$$(iii) \text{ Investment } = 6,000$$

Ans : OD 2014

$$\text{Given: Autonomous Consumption, } \bar{C} = 300$$

$$\text{MPC, } b = 0.5$$

$$\text{Investment, } I = 6,000$$

$$\text{We know that, } Y = C + I$$

$$\text{and} \quad C = \bar{C} + b(Y)$$

$$Y = 300 + 0.5Y + 6,000$$

$$Y - 0.5Y = 6,300$$

$$0.5Y = 6,300$$

$$Y = \frac{6300}{0.5} = 12,600$$

- 289.** From the following data about an economy, calculate its equilibrium level of income:

$$(i) \text{ Marginal propensity to consume } = 0.8$$

$$(ii) \text{ Investment } = 5,000$$

$$(iii) \text{ Autonomous Consumption } = 500$$

Ans : OD 2014

$$\text{Given: Autonomous Consumption, } \bar{C} = 500$$

$$\text{MPC, } b = 0.8$$

$$\text{Investment, } I = 5,000$$

$$\text{We know that, } Y = C + I$$

$$\text{and } C = \bar{C} + b(Y)$$

$$\text{We get, } Y = \bar{C} + b(Y) + I$$

$$Y = 500 + 0.8Y + 5,000$$

$$Y - 0.8Y = 5,500$$

$$0.2Y = 5,500$$

$$Y = \frac{5500}{0.2} = 27,500$$

Ans :

OD 2010

Given: $MPC = 0.75$ Increased Investment, $\Delta I = ₹1000$ crore

$$\begin{aligned}\text{We know, } K &= \frac{1}{1 - MPC} \\ &= \frac{1}{1 - 0.75} = \frac{1}{0.25} = \frac{100}{25} = 4\end{aligned}$$

(a) Total increase in income

$$\begin{aligned}\Delta Y &= \Delta I \times K \\ &= 1,000 \times 4 = ₹4000 \text{ crore}\end{aligned}$$

(b) Total increase in consumption expenditure,

$$\begin{aligned}\Delta C &= MPC (\Delta Y) = 0.75(4,000) \\ &= ₹3000 \text{ crore}\end{aligned}$$

- 282.** In an economy the equilibrium level of income is ₹12,000 crore. The ratio of marginal propensity to consume and marginal propensity to save is 3 : 1. Calculate the additional investment needed to reach a new equilibrium level of income of ₹20,000 crore.

Ans :

OD 2010

$$\begin{aligned}\text{We have, } \Delta Y &= ₹20,000 - ₹12,000 \\ &= ₹8,000 \text{ crore}\end{aligned}$$

$$\begin{aligned}\text{Given, } \frac{MPC}{MPS} &= \frac{3}{1} & \frac{MPC}{1 - MPC} &= 3 \\ 3 - 3MPC &= MPC & 4MPC &= 3 \\ MPC &= \frac{3}{4}\end{aligned}$$

$$\begin{aligned}\text{Now, } K &= \frac{1}{1 - MPC} = \frac{1}{1 - \frac{3}{4}} \\ &= \frac{1}{\frac{1}{4}} = 4\end{aligned}$$

We know that,

$$K = \frac{\Delta Y}{\Delta I}$$

$$\begin{aligned}\text{Therefore, } \Delta I &= \frac{\Delta Y}{K} = \frac{₹8,000}{4} \\ &= ₹2000 \text{ crore}\end{aligned}$$

- 283.** $C = 100 + 0.4Y$ is the Consumption Function of an economy where C is Consumption Expenditure and Y is National Income. Investment expenditure is 1100. Calculate
- Equilibrium level of National Income.
 - Consumption expenditure at equilibrium level of National Income.

Ans :

OD 2013

Given: National Income, $Y = ?$ Consumption Function, $C = 100 + 0.4Y$ Investment Expenditure, $I = 1,100$ (i) Now, $Y = C + I$

$$Y = 100 + 0.4Y + 1,100$$

or $0.6Y = 1,200$

$$Y = \frac{1,200}{0.6} = 2,000$$

Therefore, Equilibrium level of National Income, $Y = 2,000$.(ii) Now, $C = 100 + 0.4Y$ At $Y = 2,000$, $C = 100 + 0.4(2,000)$ Consumption, $C = 100 + 800 = 900$

- 284.** In an economy, $S = -100 + 0.6Y$ is the saving function, where S is Saving and Y is National Income. If investment expenditure is 1100, calculate:

- Equilibrium level of National Income
- Consumption expenditure at equilibrium level of National Income.

Ans :

OD 2013

Saving function, $S = -100 + 0.6Y$ Investment, $I = 1,100$ Y = National Income(i) Given: $S = -100 + 0.6Y$

We know that

$$S = I$$

$$1,100 = -100 + 0.6Y$$

$$1,200 = 0.6Y$$

$$Y = 1,200 \times \frac{10}{6} = ₹2,000$$

Therefore, Equilibrium level of National Income, $Y = 2,000$.(ii) $Y = C + I$

$$2,000 = C + I$$

$$C = 2,000 - 1,100, C = 900$$

Therefore, Consumption expenditure at equilibrium level = 900.

- 285.** $C = 50 + 0.5Y$ is the consumption function where C is consumption expenditure and Y is National Income and investment expenditure is 2,000 in an economy.

Calculate:

- Equilibrium level of (national) income
- Consumption expenditure at equilibrium level of (national) income.

Ans :

OD 2013

and $C = \bar{C} + MPC(Y)$
 $Y = \bar{C} + MPC(Y) + I$
 $800 = 100 + 0.7 \times 800 + I$
 $I = 800 - 100 - 560 = 140$
 Investment expenditure,
 $I = 140$

- 266.** An economy is in equilibrium. Calculate the Marginal Propensity to Save from the following:
 National Income = 1000
 Autonomous Consumption = 100
 Investment = 120

Ans : OD 2015

Given: $Y = 1,000, \bar{C} = 100, I = 120$
 As we know, $Y = C + I$
 and $C = \bar{C} + MPC(Y)$
 $(Y = \bar{C} + MPC(Y) + I)$
 $1,000 = 100 + MPC \times 1000 + 120$
 $1,000 - 100 - 120 = 1,000 MPC$
 $\frac{780}{1,000} = MPC$
 $0.78 = MPC$
 Now, $MPS = 1 - MPC$
 $MPS = 1 - 0.78$
 $MPS = 0.22$

- 267.** An economy is in equilibrium. Calculate the National Income from the following:
 Autonomous Consumption = 120
 Marginal Propensity to Save = 0.2
 Investment Expenditure = 150

Ans : OD 2015

Given: $\bar{C} = 120, MPS = 0.2, I = 150,$
 $Y = ?$

We know that,

$$MPC = 1 - MPS = 1 - 0.2 = 0.8$$

$$Y = C + I$$

and $C = \bar{C} + MPC(Y)$
 $Y = \bar{C} + MPC(Y) + I$
 $....(AD = AS = Y \& AD = C + I)$
 $Y = 120 + 0.8Y + 150$
 $Y - 0.8Y = 270$
 $Y = \frac{270}{0.2} = 1,350$

- 268.** An economy is in equilibrium. From the following data about an economy calculate autonomous consumption.

- (i) Income = 5,000
 (ii) Marginal propensity to save = 0.2
 (iii) Investment expenditure = 800

Ans :

OD 2017

Given: $Y = 5,000; MPS = 0.2; I = 800$

As we know,

$$MPC = 1 - MPS$$

$$MPC = 1 - 0.2 = 0.8$$

At equilibrium,

$$Y = C + I \text{ and}$$

$$C = \bar{C} + (MPC) Y$$

Therefore, $Y = \bar{C} + (MPC) Y + I$

Substituting the values in the equation,

$$5,000 = \bar{C} + (0.8) 5000 + 800$$

$$\bar{C} = 5000 - 4000 - 800 = 200$$

- 269.** An economy is in equilibrium. From the following data about an economy, calculate investment expenditure.

- (i) Income = 10,000
 (ii) Marginal propensity to consume = 0.9
 (iii) Autonomous consumption = 100

Ans :

OD 2015

Given: $Y = 10,000; MPS = 0.9, C = 100; I = ?$

At equilibrium, $Y = C + I$

and $C = \bar{C} + (MPC) Y + I$

$$Y = \bar{C} + (MPC) Y + I$$

$$10,000 = 100 + (0.9) 10,000 + I$$

$$I = 10,000 - 9,100 = 900$$

$$= 900$$

- 270.** An economy is in equilibrium. From the following data calculate autonomous consumption.

- (i) Income = 10,000
 (ii) Marginal propensity to save = 0.2
 (iii) Investment = 1,500

Ans :

OD 2017

Given: $Y = 10000; MPS = 0.2; \bar{C} = ?, I = 1,500$

At equilibrium, $Y = C + I$

and $C = \bar{C} + (MPC) Y + I$

Therefore, $Y = \bar{C} + (MPC) Y + I$

Here, $MPC = 1 - MPS = 1 - 0.2 = 0.8$

290. From the following data about an economy, calculate its equilibrium level of income:

- (i) Autonomous Consumption = 200
- (ii) Marginal propensity to consume = 0.9
- (iii) Investment = 1,000

Ans :

OD 2014

Given: Autonomous consumption, $\bar{C} = 200$
 Marginal Propensity to Consume, MPC (b) = 0.9
 Investment, $I = 1,000$

We know that, $Y = C + I$

and $C = \bar{C} + b(Y)$

$$Y = \bar{C} + b(Y) + I$$

$$Y = 200 + 0.9Y + 1000$$

$$Y - 0.9Y = 1200,$$

$$0.1Y = 1200$$

$$Y = \frac{1200}{0.1}$$

$$= 1200 \times \frac{10}{1} = 12,000$$

Therefore, Equilibrium level of income will be 12,000.

291. From the following data about an economy, calculate its equilibrium level of income:

- (i) Marginal propensity to consume = 0.75
- (ii) Autonomous Consumption = 200
- (iii) Investment = 6,000

Ans :

OD 2014

Autonomous consumption, $\bar{C} = 200$
 Marginal Propensity to Consume, MPC (b) = 0.75

Investment, $I = 6000$

We know that, $Y = C + I$

and $C = \bar{C} + b(Y)$

$$Y = \bar{C} + b(Y) + I$$

$$Y = 200 + 0.75Y + 6,000$$

$$Y - 0.75Y = 6,200$$

$$0.25Y = 6,200$$

$$Y = \frac{6200}{0.25} = 6,200 \times \frac{100}{25}$$

$$= 24,800$$

Therefore, Equilibrium level of income will be 24,800.

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CASE BASED QUESTION

292. Read the paragraph given below and answer the questions that follow:

The investment multiplier is an important concept of Keynesian Macroeconomic theory. It refers to the concept that any increase in public or private investment spending has a more than proportionate positive impact on aggregate income and the general economy. The multiplier attempts to quantify the additional effects of investment spending beyond those immediately measurable. The larger an investment multiplier, the more efficient it is in increasing and distributing wealth throughout the economy. In simple words, the investment multiplier can be defined as the ratio of the change in national income to the initial change in planned investment expenditure that brings about it.

(i) The value of multiplier is :

(a) $\frac{1}{MPC}$

(b) $\frac{1}{MPS}$

(c) $\frac{1}{1 - MPS}$

(d) $\frac{1}{MPC - 1}$

(ii) If $MPC = 1$, the value of the multiplier is:

(a) 0

(b) 1

(c) Between 0 and 1

(d) Infinity

(iii) The concept of investment multiplier is rooted in economic theories of _____.

(a) Adam Smith

(b) John Maynard Keynes

(c) Alfred Marshall

(d) David Ricardo

(iv) If the value of marginal propensity to save is 0.4, what will be the value of Investment multiplier?

(a) 2

(b) 4

(c) 2.5

(d) 5

Ans :

SQP 2001

(i) (b) $\frac{1}{MPS}$

(ii) (d) Infinity

strike a balance between aggregate demand and aggregate supply. Monetary policy and Fiscal policy are very different but how they interact with each other matters for the economy. While each is independent from the other, new challenges call for them to work together. Monetary and Fiscal policy are two important tools to keep the economy healthy. Both influence the economy but in different ways. Monetary policy is about keeping the prices of the goods and services stable in the economy. It is the Central bank's obligation to make sure that inflation remains low, stable and predictable. Fiscal policy refers to the economic decisions that the Government takes. Governments can decide to spend money to provide public services, support the economy and reduce inequalities. They can collect this money through taxes or by borrowing from financial markets.

- (i) Which one of the following is a fiscal measure to maintain price stability in the economy?
 - (a) Taxes
 - (b) Bank rate
 - (c) Open market operations
 - (d) Moral Suasion
- (ii) Which one of the following is a qualitative tool under monetary policy?
 - (a) Moral suasion
 - (b) Open market operations
 - (c) Bank rate
 - (d) Cash reserve ratio
- (iii) The excess of aggregate demand over aggregate supply at the full employment level is known as _____. (Inflationary gap/deflationary gap)
- (iv) During the situation of excess demand, the Central Bank _____. (increases/decreases) the tax rate on income and profits.

Ans :

FOREIGN 2004

- (i) (a) net factor income earned from abroad
- (ii) (a) C, A, D, B
- (iii) Inflationary gap
- (iv) Increases

297. Read the paragraph given below and answer the questions that follow:

The Government has implemented a judicious mix of fiscal and monetary policies to mitigate the negative impact of COVID-19 on the economy. On May 12 2020, Government announced the Atma Nirbhar Bharat Package (ANBP), a special

economic and comprehensive package of ₹20 lakh crore equivalent to 10 percent of India's GDP with an aim to encourage business, attract investments and strengthen the resolve for 'Make in India'. This was stated by Shri Anurag Singh Thakur, Union Minister of State for Finance & Corporate Affairs in a written reply to a question in Rajya Sabha. The Minister stated that on the monetary front, the Reserve Bank of India (RBI) responded with a mix of conventional and unconventional monetary and liquidity measures to mitigate the negative economic fallout of COVID 19. The policy rates have been significantly reduced and around ₹9.57 lakh crore or 4.7 per cent of GDP have been injected since February 2020 to enhance the credit flow in the economy.

- (i) This was not the objective of 'Make in India' program.
 - (a) Promote investment
 - (b) Provide employment opportunities
 - (c) To minimise the deficiency in demand.
 - (d) Enhance the development of skills.
- (ii) A situation of deficient demand can be corrected by using the following monetary instruments:
 - (a) lowering of margin requirement
 - (b) increasing of CRR
 - (c) increasing of repo rate
 - (d) selling of securities in the open market
- (iii) Enhancing credit flow in the economy leads to
 - (a) Economic development
 - (b) Inequalities of income
 - (c) Economic crisis
 - (d) Savings
- (iv) Match the following:

	Column I		Column II
1.	45 degree line	A.	Parallel to X axis
2.	Shape of autonomous investment curve	B.	$C = Y$
3.	Equilibrium level	C.	AS curve
4.	Break even point	D.	$AD = AS$

- (a) B, A, C, D
- (b) C, A, D, B
- (c) D, B, A, C
- (d) C, D, B, A

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(ii) Match the following:

	Column I		Column II
1.	Aggregate Demand	A.	Changes in government spending.
2.	Fiscal Policy	B.	Planned or desired level of savings.
3.	Monetary Policy	C.	Total demand for goods and services in an economy.
4.	Dis-savings	D.	Changes in interest rates.

- (a) A, B, D, C
 (b) C, B, A, D
 (c) B, D, A, C
 (d) C, A, D, B

(iii) Following is not a characteristic of autonomous investment:

- (a) it remains constant irrespective of the level of income.
 (b) it is income elastic.
 (c) it is generally done by the government sector.
 (d) it is done for public welfare.

(iv) At the break even point, savings is equal to _____ (zero/one).

Ans :

DELHI 2003

- (i) (d) net factor income earned from abroad
 (ii) (d) C, A, D, B
 (iii) (b) it is income elastic.
 (iv) zero

295. Read the paragraph given below and answer the questions that follow:

Every time when there is an injection of new demand into the circular flow of income there is likely to be a multiplier effect. This is because an injection of extra income leads to more spending, which creates more income and so on. The multiplier effect refers to the increase in final income arising from any new injection of spending. The size of the multiplier depends upon a household's marginal decisions to spend, called the marginal propensity to consume (MPC), or to save, called the marginal propensity to save (MPS). It is important to remember that when income is spent, this spending becomes someone else's income and so on. Marginal propensities show the proportion of extra income allocated to

particular activities, saving by households etc.

The simple investment multiplier shows the effects of an injection of new spending on the final size of a country's national income.

Understanding the multiplier concept is important in terms of describing how national income changes and how policy makers can assess the likelihood that their policies are successful.

(i) Formula for calculating the multiplier is

- (a) $K = \frac{\Delta Y}{\Delta I}$
 (b) $K = \frac{1}{1 - MPC}$
 (c) $K = \frac{1}{MPS}$
 (d) All of the above

(ii) When AD is greater than AS then:

- (a) there will be increase in planned level of inventories
 (b) producers will increase the level of production
 (c) more factors of production will be employed
 (d) both (b) and (c)

(iii) Identify the incorrect statement from the following:

- (a) there exists an inverse relation between MPS & K
 (b) there exists a direct relation between K and MPC
 (c) higher the value of MPC, lower will be the value of K
 (d) both (b) and (c)

(iv) In a situation of deficient demand, the government will _____. (increase/decrease) the rate of taxes.

Ans :

OD 2002

- (i) (d) All of the above
 (ii) (d) both (b) and (c)
 (iii) (c) higher the value of MPC, lower will be the value of K
 (iv) decrease

296. Read the paragraph given below and answer the questions that follow:

Both monetary and fiscal policy play a key role in maintaining price stability in the economy. Monetary policy is the policy adopted by the Central bank to control credit and money supply in the economy.

On the other hand, Fiscal policy is the revenue and expenditure policy adopted by the government to

800	440	—	—
—	520	0.48	—

Ans :

OD 2012

(Y)	C	$S = Y - C$	APS	MPS	APC
400	240	160	0.4	—	0.6
800	440	360	0.45	0.50	0.55
1,000	520	480	0.48	0.60	0.52

277. Complete the following table :

Income	Average Propensity to save	Marginal Propensity to Consumption	Consumption Expenditure
1,000	0.50		500
2,000	0.55	—	—
2,500	0.60	—	—

Ans :

OD 2012

(Y)	C	$S = Y - C$	APS	MPC	APC
1,000	500	500	0.50	—	0.50
2,000	900	1,100	0.55	0.4	0.45
2,500	1,000	1,500	0.60	0.2	0.40

278. Complete the following table :

Income (₹)	Savings (₹)	Average Propensity to Consumption	Marginal Propensity to Consumption
0	— 40	...	...
50	— 20	...	...
100	0	...	0.6
150	30	0.8	...
200	50	...	...

Ans :

OD 2013

Y	S	$C(Y - S)$	APC	MPC
0	— 40	40	∞	∞
50	— 20	70	1.4	0.6
100	0	100	1	0.6
150	30	120	0.8	0.4
200	50	150	0.75	0.6

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279. Complete the following table:

Income (₹)	Consumption Expenditure (₹)	Marginal Propensity to save	Average Propensity to save
0	80	...	...
100	140	0.4	...
200	...	...	0
...	240	...	0.20
...	260	0.8	0.35

Ans :

OD 2013

Income	C	$S = Y - C$	MPS	APS	APC
0	80	— 80	∞	—	—
100	140	— 40	0.4	— 0.4	1.4
200	200	0	0.4	0	1
300	240	60	0.6	0.20	0.80
400	260	140	0.8	0.35	0.65

280. Complete the following table:

Consumption Expenditure (₹)	Savings (₹)	Income (₹)	Marginal Propensity to Consume
100	50	150	...
175	75	...	...
250	100	...	...
325	125	...	...

Ans :

OD 2013

Consumption Expenditure (C) (₹)	Savings (S) (₹)	Income ($Y = C + S$) (₹)	Marginal Propensity to Consume (MPC) ($\frac{\Delta C}{\Delta Y}$)
100	50	150	
175	75	250	0.75
250	100	350	0.75
325	125	450	0.75

281. In an economy 75 per cent of the increase in income is spent on consumption. Investment is increased by ₹1,000 crore. Calculate:

- Total increase in income
- Total increase in consumption expenditure

Ans :

SQP 2006

- (i) (c) To minimise the deficiency in demand.
- (ii) (a) lowering of margin requirement
- (iii) (a) Economic development
- (iv) (b) C, A, D, B

298. Read the paragraph given below and answer the questions that follow:

India plans to take more steps to boost consumer demand including injecting liquidity through banks and simplifying personal taxes, a top government economic adviser said on Friday, in a bid to raise economic growth from six-year low. Krishnamurthy Subramanian, Chief Economic Adviser at the finance ministry, said, “the government had slashed corporate taxes to attract investment and was looking for ways to boost consumer demand to support that investment. In the short-run, we are taking steps to increase consumption so that anticipating that consumption, investment also goes up,” he told Reuters in an interview. Last month Finance Minister Nirmala Sitharaman cut corporate tax rates from over 30% to 25% and to 15% for new manufacturing companies, putting it at par or even ahead of some of its Asian peers.

That landmark move has raised hopes that the government might consider similar cuts to personal taxes to put more money into the hands of consumers and especially the middle class who form the core of Prime Minister Narendra Modi’s ruling group.

- (i) Suppose in a hypothetical economy, the income rises from ₹500 crore to ₹600 crore. As a result, the consumption expenditure rises from ₹400 crore to ₹500 crore. Marginal propensity to consume, in such a case would be:
 - (a) 0.8
 - (b) 0.4
 - (c) 1.0
 - (d) 0.6
- (ii) Which of the following may lead to excess demand in the economy?
 - (a) increase in household demand for goods and services
 - (b) fall in Net Export demand
 - (c) decrease in government demand
 - (d) decrease in household demand for goods and services.

- (iii) When aggregate demand is greater than aggregate supply, then inventories:

- (a) fall
- (b) rise
- (c) do not change
- (d) first fall then rise

- (iv) Identify the incorrect statement from the following:

- (a) autonomous investments are made by the general public
- (b) autonomous investments are not induced by profit motive
- (c) there is a positive relationship between induced investment and income
- (d) induced investment is motivated by expected profitability

Ans :

COMP 2008

- (i) (c) 1.0

As we know,

$$MPC = \frac{\Delta C}{\Delta Y} = \frac{₹(500 - 400)}{₹(600 - 500)} = 1$$

- (ii) (a) increase in household demand for goods and services
- (iii) (a) fall
- (iv) (a) autonomous investments are made by the general public

299. Read the paragraph given below and answer the questions that follow:

India’s first union budget after a once-in-a-century global pandemic and only the fourth to follow a contraction in its independent history voted for an infrastructure-led, counter-cyclical fiscal stimulus to mend the broken economy. The idea clearly, was to push the growth multiplier rather than stoke consumption steroidally, even if that meant stretching the glide path of fiscal deficit. In the current milieu of weak revenues, the government decided to normalize spending to support growth, while making budgetary transactions transparent. This means fiscal deficit at 9.5% in fiscal 2021, 6.8% in fiscal 2022 and a very gradual normalization to 4.5% of gross domestic product (GDP) by fiscal 2026.

In addition to the expansionary fiscal policy, the budget was also used as a platform to signal reforms – the notable one being privatization of public sector banks, transfer of non-performing assets to a ‘bad bank’, adequate allocation for recapitalization and increase in foreign direct investment limit in insurance. Relentless implementation of these measures is crucial.

NODIA

- (i) Identify the incorrect statement from the following:
- multiplier is directly related to MPC
 - multiplier is inversely related to MPS
 - higher the value of MPS, higher is the value of multiplier
 - lower the value of MPC, lower is the value of multiplier
- (ii) Choose the correct pair from the following:

	Column I		Column II
1.	Fiscal measures to reduce excess demand	A.	Increase in LRR
2.	Monetary measures to reduce excess demand	B.	Consumption demand and investment demand
3.	Net demand for domestic goods and services by the rest of the world	C.	Net Exports
4.	Aggregate demand	D.	Reduction in Government Expenditure

- 1-A
- 2-B
- 3-C
- 4-D

- (iii) The revenue and expenditure policy of the government which is used to correct situations of excess and deficient demand is known as _____.
- monetary policy
 - fiscal policy
 - both (a) and (b)
 - neither (a) nor (b)

Ans :

DELHI 2005

- (c) higher the value of MPS, higher is the value of multiplier
- (c) 3-C
- (b) fiscal policy

300. Read the paragraph given below and answer the questions that follow:

Consumption function is a relationship between current disposable income and current consumption. It is intended as a simple description of household behaviour that captures the idea of

consumption smoothing. Consumption smoothing is the practice of optimizing over standard of living by ensuring proper balance between spending and saving during the different phases of our lives. Thus, Consumption function is the functional relationship between consumption and income. On the other hand, the functional relationship between saving and income is called Saving function. It expresses the relationship between saving and the level of income. It is simply the desire of households to hoard a part of their total disposable income. In simple words, Saving function relates the level of saving to the level of income. It is the desire or tendency of the households to save at a given level of income. Thus, consumption plus saving is equal to income. Since income equals consumption plus saving, Saving is the difference between income and consumption. Therefore, to find saving at each level of income, consumption is subtracted from income.

- The ratio of change in consumption to change in income is known as average propensity to consume. (True/False)
- If in an economy 75% of the increase in income is spent on consumption, then marginal propensity to save is _____.
- Find out the correct pair:

	Column I		Column II
1.	APC	A.	$\frac{\Delta C}{\Delta Y}$
2.	MPC	B.	$\frac{C}{Y}$
3.	K	C.	$\frac{1}{1 - MPC}$
4.	MPS	D.	$\frac{1}{MPC}$

- What will be the value of investment multiplier if in an economy the equilibrium level of income is ₹12,000 crore and the ratio of MPC and MPS is 3 : 1?

Ans :

OD 2007

- False
- Here $MPC = 75\% = 0.75$
As we know, $MPS = 1 - MPC$
 $= 1 - 0.75 = 0.25$
- 3-C
- Given: $MPC : MPS = 3 : 1$
As we know, $MPC + MPS = 1$

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$$3x + 1x = 1$$

$$4x = 1$$

$$x = 0.25$$

Here, MPC : MPS = $0.25 \times 3 : 0.25 = 0.75 : 0.25$

Now, Investment Multiplier,

$$K = \frac{1}{MPS} = \frac{1}{0.25} = 4$$

301. Read the paragraph given below and answer the questions that follow:

Aggregate Demand and Aggregate supply are two main components of macro economic theory. The balance between them directly influence the general price level in the economy. Aggregate demand refers to the total demand for final goods and services in an economy during a year. Aggregate Demand is very important for economists as it provides the tool to measure the strength of an economy. Generally economists evaluate the total market for things produced in an economy for a year. It is usually believed that if the aggregate demand is high then the economy is strong, meaning it can sell many products. On the other hand, aggregate supply refers to the monetary value of all final goods and services purchasable by an economy over a specific period. It reflects the movement of goods and services in the economy. Aggregate supply is nothing more than national income because the money value of final goods and services equals net value added. The synergy between aggregate demand and aggregate supply determines the general price level in the economy.

- (i) Which of the following is not the component of Aggregate demand.
 - (a) Consumption Expenditure by households
 - (b) Savings by households
 - (c) Government Consumption expenditure
 - (d) Net exports
- (ii) _____ consumption that is unaffected by the level of income. (Autonomous/Induced)
- (iii) Producers will enhance the level of output and production if:
 - (a) Aggregate demand is less than aggregate supply
 - (b) Aggregate demand is more than aggregate supply
 - (c) Aggregate demand is equal to aggregate supply
 - (d) None of the above

- (iv) Low output level due to unemployment and reduced investment is the outcome of _____. (excess demand/deficient demand)

Ans :

FOREIGN 2012

- (i) (b) Savings by households
- (ii) Autonomous
- (iii) (b) Aggregate demand is more than aggregate supply
- (iv) Deficient demand

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Measures to reduce revenue deficit:

- (i) Reduction in revenue expenditure.
- (ii) Increase receipts from various tax and non-tax revenue sources.

8.2 Fiscal Deficit

It is the excess of governments total expenditure over total receipts excluding borrowings. Fiscal deficit = Total expenditure — Total receipts excluding borrowings

$$= \left[\begin{array}{c} \text{Revenue Exp.} \\ + \\ \text{Capital Exp.} \end{array} \right] - \left[\begin{array}{c} \text{Revenue Receipts} \\ + \\ \text{Non - Debt Capital Receipts} \end{array} \right]$$

Implication:

- (i) Fiscal deficit indicates the total borrowing requirements of the government.
- (ii) Large borrowings create a large burden of interest payments and loan repayment in the future.
- (iii) If borrowing is from RBI, then it could imply deficit financing (printing of currency notes) which could lead to inflation.
- (iv) Foreign borrowings may also lead to economic and political interference.

Measures to reduce fiscal deficit:

- (i) Borrowings
- (ii) Disinvestment
- (iii) Improved fiscal discipline

8.3 Primary Deficit

It is equal to fiscal deficit less interest payment.

Primary deficit = Fiscal deficit – Interest payment

Significance:

- (i) It indicates how much government borrowing is going to meet expenses other than interest payments.
- (iii) High primary deficit indicates the fiscal irresponsibility of the government.
- (ii) Low primary deficit implies that the government is borrowing largely to make previous interest payments.

- (c) Fiscal deficit is the sum of primary deficit and interest payment.
- (d) Fiscal deficit is the difference of primary deficit and interest payment.

Ans :

FOREIGN 2014

- (c) Fiscal deficit is the sum of primary deficit and interest payment.

2. Which of the following is not an example of direct tax?

- (a) Corporate tax
- (b) Wealth tax
- (c) Entertainment tax
- (d) Income tax

Ans :

FOREIGN 2009

- (c) Entertainment tax

3. Which of the following is a capital receipt?

- (a) Profits
- (b) Fees and fines
- (c) Interest
- (d) Disinvestment

Ans :

SQP 2011

- (d) Disinvestment

4. Which one of the following is a combination of direct taxes?

- (a) Excise duty and Wealth tax
- (b) Excise duty and Income tax
- (c) Service tax and Income tax
- (d) Wealth tax and Income tax

Ans :

COMP 2014

- (d) Wealth tax and Income tax

Borrowing in government budget is:

- (a) Fiscal deficit
- (b) Revenue deficit
- (c) Primary deficit
- (d) None of the above

Ans :

DELHI 2018

- (a) Fiscal deficit

6. Which of the following is not an objective of government budget?

- (a) Reallocation of resources
- (b) Economic stability
- (c) Generation of Employment
- (d) Management of public enterprises

Ans :

OD 2020

- (c) Generation of Employment

MULTIPLE CHOICE QUESTION

1. Which of the following statements is true?
 - (a) Fiscal deficit is the difference between total expenditure and total receipts.
 - (b) Primary deficit is the difference between total receipt and interest payments.

through goods and services, ensuring broader participation in tax collection.

1. The burden of these taxes can be shifted. These are levied on one person but paid by another.
2. These affect the income and property of persons through their consumption expenditure. Example, customs duty, sales tax etc.

Basis of classification of direct and indirect tax is that whether the burden of tax can be shifted to others or not. If the burden cannot be shifted then it is a direct tax otherwise indirect tax.

3.2 Non-tax Revenue

Non-tax revenue refers to the receipts of the government from sources other than taxation, contributing to public finances without imposing a direct burden on taxpayers.

Sources :

1. Interest : Income earned from loans given by the government.
2. Profits and Dividends : Revenue from public sector enterprises.
3. Gifts and Grants : Contributions received from foreign governments or organizations.
4. Special Assessment : Charges levied for specific services or benefits.
5. Administrative Revenue : Includes fees, fines, penalties, etc., collected by the government.

4. CAPITAL RECEIPTS

These are those monetary receipts which either create a liability for the government or cause reduction in the assets of the government.

Sources of capital receipts:

1. Recovery of loans (from state governments, union territories etc.).
2. Loans and borrowings (from general public, RBI, foreign governments and other bodies).
3. Disinvestment in public sector enterprises.

Basis of classification of government receipts into revenue and capital receipts is whether they lead to any increase in liability or reduction in assets of the government. If this happens then it is a capital receipt.

5. REVENUE EXPENDITURE

Revenue expenditure refers to the recurring expenses incurred by the government for its routine functioning without creating any assets or reducing liabilities.

1. It is that expenditure which does not create assets nor lead to any reduction in liability of the government. Example, payment of salary and pension, union grants to state etc.
2. These are incurred for normal functioning of the government and is recurring in nature.

6. CAPITAL EXPENDITURE

Capital expenditure refers to government spending that leads to the creation of assets or reduction in liabilities, contributing to the long-term development of the economy.

1. Creates Assets or Reduces Liabilities : Examples include repayment of borrowings and spending on the acquisition of capital assets like infrastructure.
2. Development-Oriented : These expenditures focus on building and enhancing economic capacity.

7. DEFICIT IN GOVERNMENT BUDGET

A budget may be in surplus, in deficit or balanced.

1. Surplus budget : It is one where the estimated revenue of the government is greater than the estimated expenditure. This type of budget is good for controlling inflation.
2. Balanced budget : It is one where the estimated revenue equals the estimated expenditure.
3. Deficit budget : It is one where the estimated revenue is less than the estimated expenditure. This type of budget is good for fighting recession or when there is deficient demand in the economy.

8. MEASURES OF GOVERNMENT DEFICIT

Government deficits indicate the shortfall between revenue and expenditure, necessitating corrective actions to maintain fiscal balance.

8.1 Revenue Deficit

It refers to excess of government revenue expenditure over revenue receipts.

Revenue deficit = Total Revenue Expenditure – Total Revenue Receipts

Implications:

- (i) It implies that government is spending more than the current income.
- (ii) This implies that government will have to borrow or use savings of other sectors to finance a part of its consumption expenditure.
- (iii) Reduction in expenditure often implies reduction in productive capital or welfare expenditure.

18. The non-tax revenue in the following is :

- (a) Export duty
- (b) Import duty
- (c) Dividends
- (d) Excise

Ans :

SQP 2004

- (c) Dividends

19. Direct tax is called direct because it is collected directly from :

- (a) The producers on goods produced
- (b) The sellers on good sold
- (c) The buyers of goods
- (d) The income earners

Ans :

COMP 2007

- (d) The income earners

20. What is the objective of Government Budget?

- (a) Economic Development
- (b) Redistribution of Income and Wealth
- (c) Balance Regional Development
- (d) All of the above

Ans :

DELHI 2008

- (d) All of the above

21. Which of the following is not a revenue receipt?

- (a) Recovery of loans
- (b) Foreign grants
- (c) Profits of public enterprises
- (d) Wealth tax

Ans :

OD 2010

- (a) Recovery of loans

22. What is period for which a government budget is prepared?

- (a) 2 years
- (b) 1 year
- (c) 5 years
- (d) None of the above

Ans :

FOREIGN 2003

- (b) 1 year

23. Which of the following is a source of capital receipt?

- (a) Foreign donations
- (b) Dividends
- (c) Disinvestment
- (d) Indirect taxes

Ans :

SQP 2005

- (c) Disinvestment

24. Which one of the following is an indirect tax?

- (a) Profit Tax
- (b) Wealth Tax
- (c) Customs duty
- (d) Gift tax

Ans :

COMP 2009

- (c) Customs duty

25. Borrowing in government budget is :

- (a) Revenue deficit
- (b) Fiscal deficit
- (c) Primary deficit
- (d) Deficit in taxes

Ans :

DELHI 2002

- (b) Fiscal deficit

26. Primary deficit in a government budget is :

- (a) Revenue expenditure – Revenue receipts
- (b) Total expenditure – Total receipts
- (c) Revenue deficit – Interest payments
- (d) Fiscal deficit – Interest payments

Ans :

OD 2011

- (d) Fiscal deficit – Interest payments

27. Which of the following is a correct measure of primary deficit?

- (a) Fiscal deficit minus revenue deficit
- (b) Revenue deficit minus interest payments
- (c) Fiscal deficit minus interest payments
- (d) Capital expenditure minus revenue expenditure

Ans :

SQP 2018

- (c) Fiscal deficit minus interest payments

28. Fiscal deficit equals :

- (a) Interest payments
- (b) Borrowings
- (c) Interest payments less borrowing
- (d) Borrowings less interest payments

Ans :

COMP 2020

- (b) Borrowings

29. Primary deficit is the difference between ____.

- (a) Fiscal deficit and revenue deficit
- (b) Revenue deficit and interest payment
- (c) Total expenditure and total revenue receipts
- (d) Fiscal deficit and interest payment

Ans :

DELHI 2017

- (d) Fiscal deficit and interest payment

7. Which one of the following is an indirect tax?

- (a) Custom duty
- (b) State duty
- (c) Corporate tax
- (d) Wealth tax

Ans :

FOREIGN 2017

- (a) Custom duty

8. Which one of the following is an example of Non tax revenue?

- (a) State duty
- (b) Excise duty
- (c) Borrowings
- (d) Dividends

Ans :

SQP 2013

- (d) Dividends

9. Which one of the following is a revenue expenditure in a government budget?

- (a) Interest payments
- (b) Construction projects
- (c) Repayment of loans
- (d) Purchase of land

Ans :

COMP 2015

- (a) Interest payments

10. Fiscal deficit – _____ = Primary deficit.
(Fill up the blank with a correct alternative)

- (a) Subsidies
- (b) Dividends
- (c) Interest payments
- (d) Revenue deficit

Ans :

DELHI 2012

- (c) Interest payments

11. Which one of the following is a capital receipt?

- (a) Interest
- (b) Profits
- (c) Recovery of loans
- (d) Fees

Ans :

OD 2016

- (c) Recovery of loans

12. Which of the following sources of receipts in government budget increases its liabilities?

- (a) Direct taxes
- (b) Recovery of loans
- (c) Borrowings
- (d) Dividend from public sector undertakings

Ans :

FOREIGN 2019

- (c) Borrowings

13. Which one of the following is a debt creating capital receipt?

- (a) Disinvestment
- (b) Borrowings
- (c) Dividends
- (d) Interest

Ans :

SQP 2022

- (b) Borrowings

14. If interest paid by the government is ₹20 corer, which is 25% of primary deficit, then the borrowings of the government will be:

- (a) ₹40 cr.
- (b) ₹80 cr.
- (c) ₹60 cr.
- (d) ₹25 cr.

Ans :

COMP 2021

- (b) ₹80 cr.

15. Revenue deficit is the difference between:

- (a) Total budget expenditure and Total budget receipts.
- (b) Total budget expenditure and Total budget receipts excluding borrowing.
- (c) Total revenue expenditure and Total revenue receipts.
- (d) Fiscal deficit and interest payments.

Ans :

DELHI 2021

- (c) Total revenue expenditure and Total revenue receipt

16. Fees and fines collected by the government comes under the category of:

- (a) Direct tax revenue
- (b) Indirect tax revenue
- (c) Capital receipts.
- (d) Non-tax revenue

Ans :

OD 2023

- (d) Non-tax revenue

17. Primary deficit equals :

(Choose the correct alternative)

- (a) Borrowings
- (b) Interest payments
- (c) Borrowings less interest payments
- (d) Borrowings and interest payments both

Ans :

FOREIGN 2001

- (c) Borrowings less interest payments

CHAPTER 4

GOVERNMENT BUDGET AND THE ECONOMY

SUMMARY

1. BUDGET

It is an annual statement of the estimated receipts and expenditure of the government over the fiscal year which runs from 1st April to 31st March.

1.1 Objectives of Government Budget

The government budget is a crucial tool for achieving various socio-economic goals and ensuring the balanced growth of the economy. It aims to address multiple economic challenges effectively

- (i) Re-allocation of resources : The government corrects the allocation of resources through its tax policy due to social and economic consideration.
- (ii) Re-distribution of income and wealth : Through its tax and expenditure policy, the government attempts to reduce inequalities of income.
- (iii) Economic stability : The government tries to prevent business fluctuations and maintain economic stability.
- (iv) Management of public enterprises : Government undertakes commercial activities that are of the nature of natural monopolies, heavy manufacturing etc. through its public enterprise.

1.2 Divisions of Government Budget

Government Budget can be divided into two types as follows :

- (i) Revenue Budget : It includes revenue receipts and revenue expenditure of the government.
- (ii) Capital Budget : It includes capital receipts and capital expenditure of the government.

1.3 Broad Components of the Budget

The government budget is divided into two main components to provide a clear structure

for managing its finances and addressing fiscal priorities.

- (i) Budget receipt : Budget receipt includes revenue and capital receipts. It refers to the estimated money receipts of the government from all sources during the fiscal year.
- (ii) Budget expenditure : It refers to the estimated expenditure to be incurred by the government under different heads in a fiscal year. It includes revenue and capital expenditure.

2. REVENUE RECEIPT

Revenue receipts refer to those receipts which do not either create a liability or lead to reduction in assets.

Features of revenue receipt are as follows :

- (i) These receipts do not create a liability for the government.
- (ii) They do not cause any reduction in the assets.

3. CLASSIFICATION OF REVENUE RECEIPT

Revenue receipts are the funds collected by the government without creating liabilities or reducing assets. These are primarily generated through tax and non-tax sources.

3.1 Tax Revenue

Revenue that arises on account of taxes levied by the government. The taxes imposed by the government are of two types:

- (i) Direct taxes : Direct taxes are a significant source of government revenue, designed to ensure equity and fairness in taxation by targeting individual income and property.
 - (a) These taxes are paid by the same person on whom they have been imposed.
 - (b) They are levied on the property and income of persons.
 - (c) They are progressive in nature, e.g., income tax, corporation tax etc.
- (ii) Indirect taxes : Indirect taxes are designed to collect revenue from consumers indirectly

30. Fiscal deficit equals :

- (a) Primary deficit minus interest payments
- (b) Primary deficit plus interest payments
- (c) Total budget expenditure minus total budget receipts
- (d) None of the above

Ans :

OD 2013

- (b) Primary deficit plus interest payments

31. Primary deficit is borrowing requirements of government for making _____.

- (a) Interest payments
- (b) Other than interest payments
- (c) All types of payments
- (d) Some specific payments

Ans :

DELHI 2018

- (b) Other than interest payments

32. Dividends received from Public Sector Undertakings (PSU) are a part of the government's _____.

- (a) Non-tax Revenue receipts
- (b) Tax Receipts
- (c) Capital Receipts
- (d) Capital Expenditure

Ans :

COMP 2019

- (a) Non-tax Revenue receipts

33. In the Annual Budget 2022-23, the Government of India set up disinvestment targets of ₹65,000 corer". Such proceeds from disinvestment can be classified as _____ receipts in the Government Budget as it leads to _____ of the Government.

- (a) Capital, decrease in assets
- (b) Revenue, increase in assets
- (c) Capital, increase in liabilities
- (d) Revenue, decrease in liabilities

Ans :

DELHI 2023

- (a) Capital, decrease in assets

34. In order to tackle the problem of rising general price level in an economy, government may come up with a surplus budget to achieve the budget objective of _____.

- (i) Reallocation of resources
- (ii) Price stability
- (iii) Redistribution of income

Alternatives:

- (a) (i) only
- (b) (ii) only
- (c) only (iii)
- (d) (i) and (iii)

Ans :

OD 2023

- (b) (ii) only

35. Identify which of the following is an example of non-debt capital receipt.

- (a) Financial aid from MNC for victims in flood affected area.
- (b) Borrowings from International Monetary Fund (IMF).
- (c) Recovery of loans from State Governments.
- (d) Dividend paid by State Bank of India (SBI) to the Government.

Ans :

OD 2021

- (c) Recovery of loans from State Governments.

36. 'Budget is used as an important policy instrument to combat fluctuations in an economy.'

In the light of above lines, identify the related objective of government budget.

- (a) Allocation of resources
- (b) Stabilization of prices
- (c) Growth of the economy
- (d) Redistribution of income

Ans :

OD 2021

- (b) Stabilization of prices

37. If the value of export of merchandise is ₹1,500 crore and Imports of goods are 20 percent more than exports. The value of imports and trade deficit will be ₹ _____ corer and ₹ _____ corer respectively.

- (a) ₹1800, ₹3300
- (b) ₹1800, ₹300
- (c) ₹1200, ₹300
- (d) ₹1200, ₹3300

Ans :

OD 2021

- (b) ₹1800, ₹300

$$\text{Import of Goods} = 1500 \times \frac{120}{100} = ₹1,800$$

$$\text{Trade Deficit} = \text{Import} - \text{Export}$$

$$= 1800 - 1500 = ₹300$$

38. What is the definition of Revenue Deficit and how is it calculated in the context of government finances?

- (a) Excess of total revenue receipts over total revenue expenditure
- (b) Excess of total revenue expenditure over total revenue receipts
- (c) Difference between revenue receipts and capital receipts
- (d) Excess of total borrowings over total expenditure

Ans :

SQP 2000

(b) Excess of total revenue expenditure over total revenue receipts

Revenue deficit refers to the excess of government revenue expenditure over revenue receipts. It shows that the government is spending more on its current expenses than it earns.

39. Among the following, which represents a Capital Receipt and why is it classified as such?

- (a) Interest earned on loans given by the government
- (b) Income tax collected from individuals
- (c) Loans and borrowings from the RBI
- (d) Penalties and fines collected by the government

Ans :

COMP 2001

(c) Loans and borrowings from the RBI

Loans and borrowings from the RBI are capital receipts because they create a liability for the government, distinguishing them from revenue receipts.

40. In government budgeting, what does a Balanced Budget signify and why is it important for fiscal discipline?

- (a) Estimated revenue exceeds estimated expenditure
- (b) Estimated revenue equals estimated expenditure
- (c) Estimated expenditure exceeds estimated revenue
- (d) Revenue receipts equal capital receipts

Ans :

DELHI 2004

(b) Estimated revenue equals estimated expenditure

A balanced budget means the government's estimated revenue matches its estimated expenditure, ensuring no fiscal deficit or surplus and maintaining fiscal stability.

41. Which of the following statements accurately describes Fiscal Deficit and its implications for the economy?

- (a) It measures the total savings of the government.
- (b) It equals revenue expenditure minus revenue receipts.
- (c) It indicates the total borrowing requirements of the government.
- (d) It represents the difference between revenue receipts and capital receipts.

Ans :

OD 2007

(c) It indicates the total borrowing requirements of the government

Fiscal deficit is the total borrowing requirement of the government when total expenditure exceeds total receipts, excluding borrowings.

42. What is the significance of Primary Deficit in government budgeting and how is it calculated?

- (a) It measures the total debt of the government.
- (b) It indicates borrowing used for expenses other than interest payments.
- (c) It shows the difference between revenue and capital expenditure.
- (d) It equals fiscal deficit plus interest payments.

Ans :

FOREIGN 2008

(b) It indicates borrowing used for expenses other than interest payments

Primary deficit is calculated as

Fiscal Deficit-Interest Payments and highlights the government borrowing used for non-interest expenditures.

43. Which of the following is NOT a source of Non-Tax Revenue and why is it excluded from this classification?

- (a) Gifts and grants
- (b) Profits and dividends
- (c) Customs duty
- (d) Administrative fees

Ans :

FOREIGN 2002

(c) Customs duty

Customs duty is a tax revenue source, while gifts, grants and administrative fees are considered non-tax revenue because they are not generated through taxation.

44. What does Revenue Deficit imply for the government's financial health and spending patterns?

- (a) Government is saving more than it spends.
- (b) Government is spending more than its current income.
- (c) Borrowings of the government are reduced.
- (d) Government is incurring high capital expenditure.

Ans :

SQP 2010

(b) Government is spending more than its current income

Revenue deficit indicates the government is spending more on revenue expenditure than it earns from revenue receipts, leading to borrowing

or using savings.

- 45.** Which measure can effectively reduce a Fiscal Deficit and why is it considered a viable solution?

- (a) Reduction in revenue receipts
- (b) Borrowings from foreign governments
- (c) Disinvestment in public sector enterprises
- (d) Increase in revenue expenditure

Ans :

COMP 2003

(c) Disinvestment in public sector enterprises
Disinvestment in public sector enterprises generates funds for the government without increasing liabilities, making it an effective way to reduce fiscal deficit.

- 46.** Which of the following is NOT an objective of the Government Budget and how does it differ from the stated goals of resource reallocation, income redistribution and economic stability?

- (a) Re-allocation of resources
- (b) Reduction in business fluctuations
- (c) Management of private enterprises
- (d) Redistribution of income and wealth

Ans :

SQP 2011

(c) Management of private enterprises
The government budget focuses on managing public enterprises, not private enterprises. The other options, like resource reallocation and income redistribution, are integral to achieving socio-economic goals.

- 47.** What does a Surplus Budget indicate in terms of government revenue and expenditure and when is it typically used?

- (a) Estimated revenue is less than estimated expenditure
- (b) Estimated revenue is greater than estimated expenditure
- (c) Borrowing requirements of the government
- (d) Total receipts equal total expenditure

Ans :

DELHI 2005

(b) Estimated revenue is greater than estimated expenditure

A surplus budget occurs when estimated revenue exceeds expenditure, which is often used to control inflation in the economy.

- 48.** On what basis are taxes classified as direct or indirect and how does this classification affect tax incidence?

- (a) Whether they are levied on income or property

- (b) Whether the burden of tax can be shifted to others

- (c) Whether they create liabilities or assets

- (d) Whether they are progressive or regressive

Ans :

OD 2009

- (b) Whether the burden of tax can be shifted to others

Taxes are classified as direct or indirect based on whether the burden can be shifted. Direct taxes are borne by the person paying them, while indirect taxes are shifted to consumers.

- 49.** In the context of the Government Budget, which division specifically refers to the classification that includes revenue and capital receipts and why is it essential for understanding government finances?

- (a) Revenue Budget
- (b) Capital Budget
- (c) Budget Receipt
- (d) Budget Expenditure

Ans :

COMP 2014

- (c) Budget Receipt

Budget Receipt includes both revenue and capital receipts, covering all sources of government income during the fiscal year, which is crucial for estimating fiscal health.

- 50.** What is the primary feature of Revenue Receipts and why are they distinguished from Capital Receipts in terms of liabilities and assets?

- (a) They create liabilities for the government.
- (b) They lead to a reduction in government assets.
- (c) They do not create liabilities or reduce assets.
- (d) They are used for capital expenditure only.

Ans :

DELHI 2018

(c) They do not create liabilities or reduce assets
Revenue receipts are funds collected by the government without increasing liabilities or reducing assets, making them different from capital receipts.

- 51.** What is the primary basis for classifying taxes as Direct or Indirect and how does this classification affect the incidence and burden of taxation?

- (a) Whether the tax is levied on individuals or corporations
- (b) Whether the burden of the tax can be shifted to others
- (c) Whether the tax contributes to revenue or capital receipts
- (d) Whether the tax is progressive or regressive

Ans :

OD 2020

(b) Whether the burden of the tax can be shifted to others

Direct taxes are borne by the individual or entity on whom they are levied, while indirect taxes allow the burden to be shifted to others, such as consumers.

52. In the context of Capital Receipts, which of the following is an accurate example and how does it reflect the creation of government liabilities or reduction in assets?

- (a) Interest earned on loans given by the government
- (b) Income tax collected from individuals
- (c) Loans and borrowings from the RBI
- (d) Penalties and fines collected by the government

Ans :

FOREIGN 2017

(c) Loans and borrowings from the RBI

Loans and borrowings from the RBI are capital receipts as they create liabilities for the government, differentiating them from revenue receipts.

53. What is the significance of Revenue Expenditure in the government's financial management and how does it impact routine functioning without creating assets or reducing liabilities?

- (a) It is spent on creating long-term capital assets.
- (b) It helps in managing recurring expenses like salaries and pensions.
- (c) It is used to finance public enterprises.
- (d) It leads to a reduction in government liabilities.

Ans :

SQP 2013

(b) It helps in managing recurring expenses like salaries and pensions

Revenue expenditure is used for the day-to-day functioning of the government and does not lead to the creation of assets or reduction of liabilities.

54. What is the key implication of a Revenue Deficit in the context of government finances and what does it signify about the government's spending relative to its revenue income?

- (a) The government is saving more than it spends.
- (b) The government is spending more than its current income.
- (c) The government is investing heavily in capital projects.

(d) The government is reducing its revenue expenditure.

Ans :

COMP 2015

(b) The government is spending more than its current income

Revenue deficit implies that the government is spending more on revenue expenditure than it earns through revenue receipts, leading to potential borrowing.

55. How does the concept of Fiscal Deficit differ from other budget deficits and what does it primarily indicate about the government's borrowing requirements?

- (a) It measures the total savings of the government.
- (b) It equals revenue expenditure minus revenue receipts.
- (c) It indicates the total borrowing requirements of the government.
- (d) It represents the difference between revenue receipts and capital receipts.

Ans :

DELHI 2012

(c) It indicates the total borrowing requirements of the government

Fiscal deficit reflects the total amount the government needs to borrow to cover its expenditures when its total receipts (excluding borrowings) fall short.

56. What does the concept of Primary Deficit reveal about government borrowing and how is it calculated to exclude interest payments from fiscal deficit?

- (a) It measures the total debt of the government.
- (b) It indicates borrowing used for expenses other than interest payments.
- (c) It shows the difference between revenue and capital expenditure.
- (d) It equals fiscal deficit plus interest payments.

Ans :

OD 2016

(b) It indicates borrowing used for expenses other than interest payments

Primary deficit is calculated as Fiscal Deficit – Interest Payments and highlights the borrowing required for non-interest expenses.

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57. In what way does a Surplus Budget benefit the economy and under what conditions is it typically used by the government to address inflationary pressures?

- (a) Estimated revenue is less than estimated expenditure
- (b) Estimated revenue is greater than estimated expenditure
- (c) Borrowing requirements of the government
- (d) Total receipts equal total expenditure

Ans :

FOREIGN 2019

(b) Estimated revenue is greater than estimated expenditure

A surplus budget, where revenue exceeds expenditure, is used to control inflation by reducing excess demand in the economy.

58. The government budget is divided into two main components, one focusing on revenue and the other on capital. These components are _____ and _____.

- (a) Revenue Budget, Capital Budget
- (b) Revenue Receipt, Capital Receipt
- (c) Revenue Expenditure, Capital Expenditure
- (d) Revenue Deficit, Capital Deficit

Ans :

SQP 2022

(a) Revenue Budget, Capital Budget

The government budget is categorized into Revenue Budget (including revenue receipts and revenue expenditure) and Capital Budget (including capital receipts and capital expenditure).

59. Revenue receipts refer to those government receipts which do not _____ or _____, distinguishing them from capital receipts.

- (a) Increase income, reduce assets
- (b) Create liabilities, reduce assets
- (c) Create assets, increase income
- (d) Increase borrowing, reduce liabilities

Ans :

COMP 2021

(b) Create liabilities, reduce assets

Revenue receipts are funds collected by the government without increasing liabilities or reducing assets, which differentiates them from capital receipts.

60. Direct taxes, which form a significant part of government revenue, are paid by _____ and cannot be _____ to other individuals or entities.

- (a) The government, refunded
- (b) The individual or entity, shifted
- (c) Corporations, reduced
- (d) Consumers, transferred

Ans :

DELHI 2023

(b) The individual or entity, shifted

Direct taxes are borne by the individual or entity on whom they are levied, with no possibility of shifting the tax burden to another party.

61. Non-tax revenue, which forms an important source of government income, includes _____ from public sector enterprises and _____ earned from loans provided by the government.

- (a) Profits, interest
- (b) Dividends, disinvestment
- (c) Grants, repayments
- (d) Fees, savings

Ans :

COMP 2007

(a) Profits, interest

Non-tax revenue consists of profits earned by public sector enterprises and interest on loans given by the government, contributing to revenue without imposing taxes.

62. Fiscal deficit, a key measure of government borrowing requirements, is calculated as the total expenditure of the government minus _____.

- (a) Revenue expenditure
- (b) Total receipts excluding borrowings
- (c) Capital receipts
- (d) Total receipts including borrowings

Ans :

OD 2000

(b) Total receipts excluding borrowings

Fiscal deficit is the excess of total expenditure over total receipts, excluding borrowings and indicates the borrowing needs of the government.

63. Revenue deficit occurs when the government's _____ exceeds its _____, indicating financial imbalance.

- (a) Revenue receipts, revenue expenditure
- (b) Revenue expenditure, revenue receipts
- (c) Capital expenditure, capital receipts
- (d) Total receipts, total expenditure

Ans :

FOREIGN 2001

(b) Revenue expenditure, revenue receipts

Revenue deficit arises when the government's spending on revenue expenditure surpasses its revenue receipts, leading to a financial shortfall.

Ans :

DELHI 2001

(b) Both Assertion and Reason are true and Reason is not the correct explanation of Assertion.

- 77. Assertion :** Direct taxes are paid by the person on whom they are levied.

Reason : Tax is an optional payment made by a person or a firm to the government.

- (a) Both Assertion and Reason are true and Reason is the correct explanation of Assertion.
- (b) Both Assertion and Reason are true and Reason is not the correct explanation of Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

OD 2004

- (c) Assertion is true but Reason is false.

STATEMENT BASED QUESTIONS

- 78.** Consider the following statements regarding Revenue Deficit and its implications :

- (i) Revenue deficit indicates that the government is spending more than its current income from revenue receipts.
- (ii) A high revenue deficit suggests the need for the government to borrow for meeting its consumption expenditure.
- (iii) Revenue deficit directly measures the overall financial health of the government.
- (iv) To reduce revenue deficit, the government must increase revenue expenditure significantly.

Which of the above statements are correct?

- (a) 1 and 2 only
- (b) 1, 2 and 3 only
- (c) 2, 3 and 4 only
- (d) 1, 2 and 4 only

Ans :

SQP 2023

- (a) 1 and 2 only

Statements 1 and 2 are correct as revenue deficit reflects excess expenditure over revenue receipts, often requiring borrowing. Statement 3 is incorrect because revenue deficit specifically measures the shortfall in revenue, not overall financial health. Statement 4 is also incorrect; reducing revenue deficit requires reducing expenditure or increasing revenue, not increasing expenditure.

- 79.** Consider the following statements about Revenue Deficit :

- (i) It occurs when revenue receipts exceed revenue expenditure.
- (ii) It indicates the government is spending more than its current income.
- (iii) It highlights the need for borrowing or using savings to meet expenses.
- (iv) A reduction in revenue deficit often requires an increase in revenue receipts or a cut in expenditure.

Which of the above statements are correct?

- (a) 1 and 2 only
- (b) 2, 3 and 4 only
- (c) 1 and 4 only
- (d) 3 and 4 only

Ans :

SQP 2012

- (b) 2, 3 and 4 only

Revenue deficit occurs when revenue expenditure exceeds revenue receipts (not the reverse), indicating the government spends more than it earns and may need borrowing or expenditure reduction.

- 80.** Consider the following statements about Non-Tax Revenue :

- (i) Non-tax revenue includes income from profits and dividends from public enterprises.
- (ii) It includes fees, fines and interest earned on loans provided by the government.
- (iii) Non-tax revenue contributes to reducing the government's reliance on external borrowings.
- (iv) It is a more significant source of revenue than tax revenue in most economies.

Which of the above statements are correct?

- (a) 1, 2 and 3 only
- (b) 1, 3 and 4 only
- (c) 2 and 4 only
- (d) 1, 2, 3 and 4

Ans :

DELHI 2019

- (a) 1, 2 and 3 only

Non-tax revenue includes profits, dividends, fees and interest, reducing reliance on borrowings. However, it is generally a smaller revenue source than tax revenue.

- 81.** Consider the following statements about Indirect Taxes :

- (i) Indirect taxes are levied on goods and services and are paid by consumers.
- (ii) The burden of indirect taxes can be shifted from producers to consumers.

- (a) Both Assertion and Reason are true and Reason is the correct explanation of Assertion.
- (b) Both Assertion and Reason are true and Reason is not the correct explanation of Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

COMP 2016

(a) Assertion and reason both are correct statements and reason is correct explanation for assertion.

- 71. Assertion :** Economic stability promotes growth and development.

Reason : Absence of price fluctuations promotes stability and growth in an economy.

- (a) Both Assertion and Reason are true and Reason is the correct explanation of Assertion.
- (b) Both Assertion and Reason are true and Reason is not the correct explanation of Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

DELHI 2019

(a) Assertion and reason both are correct statements and reason is correct explanation for assertion.

- 72. Assertion :** Profits and dividends are sources of revenue receipts for the government.

Reason : If a tax burden cannot be shifted, it is an indirect tax.

- (a) Both Assertion and Reason are true and Reason is the correct explanation of Assertion.
- (b) Both Assertion and Reason are true and Reason is not the correct explanation of Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

OD 2022

(c) Assertion is true but Reason is false. Profits and dividends do not create a liability for the government.

- 73. Assertion :** A balanced budget implies that the government is spending within its means.

Reason : In a balanced budget, estimated revenues equal estimated expenditures.

- (a) Both Assertion and Reason are true and Reason is the correct explanation of Assertion.
- (b) Both Assertion and Reason are true and Reason is not the correct explanation of

Assertion.

- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

FOREIGN 2021

(a) Assertion and reason both are correct statements and reason is correct explanation for assertion.

- 74. Assertion :** Capital expenditure creates assets for the government.

Reason : Repayment of loans is an example of capital expenditure.

- (a) Both Assertion and Reason are true and Reason is the correct explanation of Assertion.
- (b) Both Assertion and Reason are true and Reason is not the correct explanation of Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

COMP 2000

(b) Both Assertion and Reason are true and Reason is not the correct explanation of Assertion.

- 75. Assertion :** Borrowings undertaken to finance revenue deficit in the present, further increases it in the future.

Reason : Revenue expenditure does not create assets for the government.

- (a) Both Assertion and Reason are true and Reason is the correct explanation of Assertion.
- (b) Both Assertion and Reason are true and Reason is not the correct explanation of Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

SQP 2023

(b) Both Assertion and Reason are true and Reason is not the correct explanation of Assertion.

- 76. Assertion :** Public goods satisfy the collective wants of the people.

Reason : Government directly produces the goods and services which are ignored by the private sector.

- (a) Both Assertion and Reason are true and Reason is the correct explanation of Assertion.
- (b) Both Assertion and Reason are true and Reason is not the correct explanation of Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Between 2018 and 2022, which deficit has shown a relatively stable trend and what could this indicate about government finances?

- (a) Revenue Deficit, indicating consistent borrowing for recurring expenses
- (b) Fiscal Deficit, showing stable overall borrowing needs
- (c) Revenue Deficit, showing declining reliance on recurring borrowings
- (d) Fiscal Deficit, indicating fluctuating borrowing patterns

Ans :

DELHI 2003

- (b) Fiscal Deficit, showing stable overall borrowing needs

The graph shows that Fiscal Deficit remains relatively stable over the years, fluctuating between 38% and 45%, while Revenue Deficit shows more variation. This suggests consistent government borrowing to finance overall deficits while possibly managing recurring expenses better over time.

PASSAGE BASED QUESTION

- 92.** Primary deficit is fiscal deficit minus interest payments. It shows how much borrowing is used for non-interest expenses, such as development projects or welfare programs.

What does a high primary deficit indicate about government spending?

- (a) Most borrowings are used to repay past loans.
- (b) Borrowings are largely allocated for current expenditures.
- (c) Government revenue exceeds its expenses.
- (d) Government has no fiscal responsibility.

Ans :

OD 2013

- (b) Borrowings are largely allocated for current expenditures.

A high primary deficit indicates that significant borrowing is used for non-interest government spending, such as welfare and development.

- 93.** Surplus budgets occur when estimated revenue exceeds expenditure. These budgets are often used to control inflation by reducing demand in the economy.

How does a surplus budget help in controlling inflation?

- (a) By reducing the purchasing power of consumers.
- (b) By increasing government spending on welfare programs.
- (c) By encouraging borrowing and investments.
- (d) By increasing subsidies and tax cuts.

Ans :

FOREIGN 2015

- (a) By reducing the purchasing power of consumers.

A surplus budget reduces demand in the economy by lowering government spending or increasing taxes, helping control inflation.

- 94.** The government budget is a comprehensive statement outlining the government's receipts and expenditures for the fiscal year. It aims to achieve socio-economic goals, such as economic stability and resource allocation.

How does the government budget contribute to achieving socio-economic goals?

- (a) By controlling private sector activities
- (b) Through planning and balancing its fiscal priorities
- (c) By encouraging monopolistic practices
- (d) By increasing revenue through exports

Ans :

SQL 2005

- (b) Through planning and balancing its fiscal priorities

The budget allows the government to align its financial resources with its socio-economic goals, ensuring stability and resource allocation.

- 95.** Non-tax revenue includes profits from public sector enterprises and interest earned on loans. These sources do not rely on taxation and contribute significantly to government income.

How does non-tax revenue benefit the government compared to tax revenue?

- (a) It provides a consistent and equitable income source.
- (b) It reduces reliance on external borrowing and taxation.
- (c) It directly targets consumers and businesses.
- (d) It primarily funds short-term capital projects.

Ans :

COMP 2020

- (b) It reduces reliance on external borrowing and taxation.

Non-tax revenue supplements government income without taxing citizens, reducing the need for borrowing or increasing taxes.

- (iii) Indirect taxes are regressive in nature, affecting lower-income groups more heavily.
- (iv) Examples of indirect taxes include income tax and corporation tax.

Which of the above statements are correct?

- (a) 1, 2 and 3 only
- (b) 2 and 4 only
- (c) 1, 3 and 4 only
- (d) 1, 2, 3 and 4

Ans :

OD 2022

- (a) 1, 2 and 3 only

Indirect taxes are levied on goods and services, their burden is shifted to consumers and they are regressive. Income tax and corporation tax are direct taxes, not indirect.

Here are new types of statement-based questions with answers and explanations, derived from the given matter.

- 82.** Which of the following statements correctly differentiate Revenue and Capital Receipts?

- (i) Revenue receipts neither create liabilities nor reduce assets, while capital receipts either create liabilities or reduce assets.
 - (ii) Revenue receipts include taxes and non-tax revenue, while capital receipts include borrowings and disinvestment.
 - (iii) Revenue receipts are used for long-term development projects, whereas capital receipts are used for day-to-day government operations.
 - (iv) Both revenue and capital receipts involve creating liabilities for the government.
- (a) 1 and 2 only
 - (b) 1, 2 and 3 only
 - (c) 3 and 4 only
 - (d) 2 and 4 only

Ans :

FOREIGN 2021

- (a) 1 and 2 only

Statements 1 and 2 are correct. Revenue receipts do not create liabilities or reduce assets, while capital receipts do. Additionally, revenue receipts are generated through taxes and non-tax sources, while capital receipts arise from borrowings, disinvestment, etc. Statement 3 is incorrect as revenue receipts are for recurring expenses and capital receipts are used for long-term investments. Statement 4 is also incorrect because revenue receipts do not create liabilities.

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- 83.** Consider the following statements about Fiscal Deficit :

- (i) Fiscal deficit measures the total borrowing requirements of the government.
- (ii) It is calculated as total expenditure minus total receipts, including borrowings.
- (iii) A high fiscal deficit may lead to inflationary pressure in the economy.
- (iv) Borrowing to cover fiscal deficit can increase the burden of interest payments.

Which of the above statements are correct?

- (a) 1, 3 and 4 only
- (b) 1, 2 and 4 only
- (c) 2 and 3 only
- (d) 1, 2, 3 and 4

Ans :

COMP 2016

- (a) 1, 3 and 4 only

Fiscal deficit is calculated as total expenditure minus total receipts excluding borrowings. It indicates borrowing needs and may lead to inflation and higher interest burdens.

- 84.** Identify the correct statements about Fiscal Deficit and its significance :

- (i) Fiscal deficit reflects the difference between total expenditure and total receipts, including borrowings.
 - (ii) It measures the total borrowing requirements of the government.
 - (iii) A high fiscal deficit may lead to inflation due to increased borrowing and spending.
 - (iv) Fiscal deficit reduction requires higher borrowing and lower spending.
- (a) 1 and 3 only
 - (b) 2 and 3 only
 - (c) 2, 3 and 4 only
 - (d) 1, 2 and 3 only

Ans :

COMP 2000

- (d) 1, 2 and 3 only

Statements 1, 2 and 3 are correct. Fiscal deficit is the gap between expenditure and receipts (excluding borrowings) and shows borrowing needs. A high fiscal deficit can cause inflation. Statement 4 is incorrect because fiscal deficit reduction requires lower borrowing or higher revenues, not higher borrowing.

- 85.** Which of the following statements best describe Non-Tax Revenue?

- (i) Non-tax revenue includes income from public sector profits and dividends, administrative fees and interest on loans.

- (ii) Non-tax revenue contributes to reducing reliance on direct taxes for funding government operations.
- (iii) It represents a significant source of government income, often exceeding tax revenue.
- (iv) Non-tax revenue does not involve generating liabilities or reducing assets.
- (a) 1 and 4 only
- (b) 1, 2 and 4 only
- (c) 2 and 3 only
- (d) 1, 2, 3 and 4

Ans :

DELHI 2001

- (b) 1, 2 and 4 only

Statements 1, 2 and 4 are correct. Non-tax revenue comes from sources like fees, interest and dividends, reducing reliance on taxes and not creating liabilities. Statement 3 is incorrect because non-tax revenue generally forms a smaller part of total revenue compared to tax revenue.

86. Which statements accurately explain the nature and effects of Indirect Taxes?

- (i) Indirect taxes are levied on goods and services but paid indirectly by consumers through higher prices.
- (ii) The burden of indirect taxes can be shifted from producers to consumers.
- (iii) Indirect taxes are regressive as they disproportionately affect lower-income groups.
- (iv) Indirect taxes are only applied to luxury goods to avoid burdening the poor.
- (a) 1 and 2 only
- (b) 2 and 4 only
- (c) 1, 2 and 3 only
- (d) 1, 3 and 4 only

Ans :

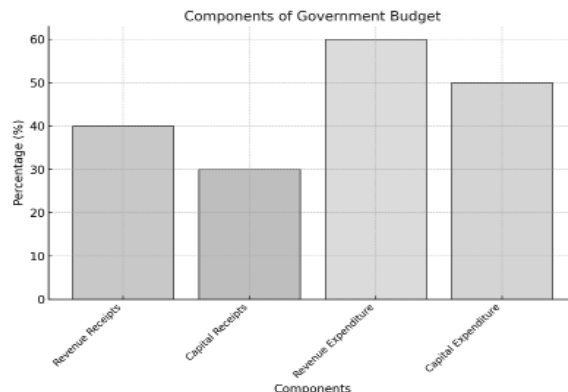
OD 2004

- (c) 1, 2 and 3 only

Statements 1, 2 and 3 are correct. Indirect taxes are levied on goods and services, their burden is passed to consumers and they are regressive. Statement 4 is incorrect as indirect taxes are not limited to luxury goods.

GRAPH BASED QUESTIONS

87. The bar graph below displays the percentage contributions of different components of the government budget.



Which component contributes the highest percentage to the government budget as shown in the graph?

- (a) Revenue Receipts
- (b) Capital Receipts
- (c) Revenue Expenditure
- (d) Capital Expenditure

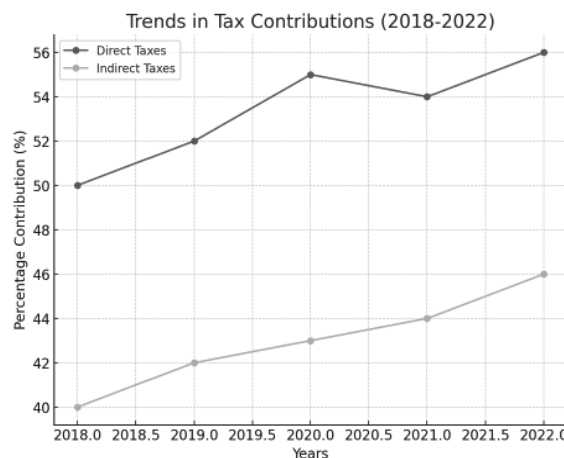
Ans :

FOREIGN 2007

- (c) Revenue Expenditure

According to the bar graph, Revenue Expenditure accounts for the highest percentage (60%), followed by Capital Expenditure (50%), Revenue Receipts (40%) and Capital Receipts (30%). This highlights the significant share of recurring government spending in the budget.

88. The line graph below depicts the trends in the percentage contribution of Direct Taxes and Indirect Taxes to government revenue from 2018 to 2022.



Which type of tax has shown a consistent increase in its contribution over the years and what does this trend suggest?

- (a) Direct Taxes, indicating a focus on income-based taxation
- (b) Indirect Taxes, suggesting a greater reliance on consumption-based revenue
- (c) Both Direct and Indirect Taxes, showing equal growth in contributions
- (d) Neither, as tax contributions remained unchanged

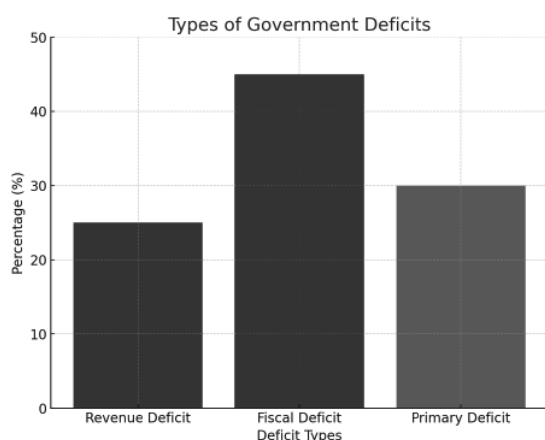
Ans :

OD 2005

- (b) Indirect Taxes, suggesting a greater reliance on consumption-based revenue

The graph shows a consistent increase in the percentage contribution of Indirect Taxes from 40% in 2018 to 46% in 2022, indicating a growing reliance on consumption-based taxes. Direct Taxes also increased but at a slower pace, reflecting a focus on diversifying revenue sources.

89. The bar graph below depicts the percentage distribution of different types of government deficits.



Which type of government deficit has the highest percentage contribution according to the graph?

- (a) Revenue Deficit
- (b) Fiscal Deficit
- (c) Primary Deficit
- (d) All deficits contribute equally

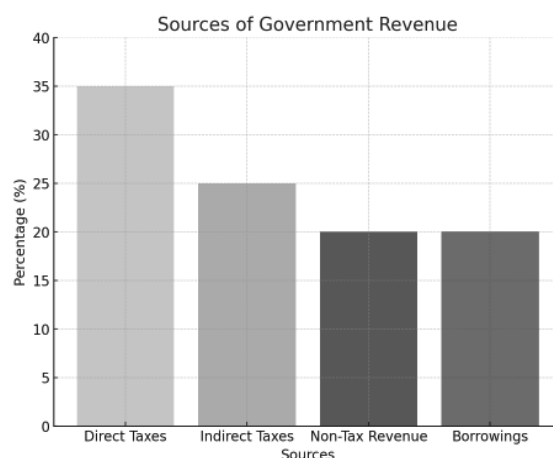
Ans :

COMP 2010

- (b) Fiscal Deficit

The graph shows that Fiscal Deficit contributes the most at 45%, followed by Primary Deficit at 30% and Revenue Deficit at 25%. This highlights the significant role of fiscal deficit in indicating government borrowing requirements.

90. The bar graph below illustrates the percentage contribution of various sources of government revenue.



Which source contributes the least percentage to the government's revenue as shown in the graph?

- (a) Direct Taxes
- (b) Indirect Taxes
- (c) Non-Tax Revenue
- (d) Borrowings

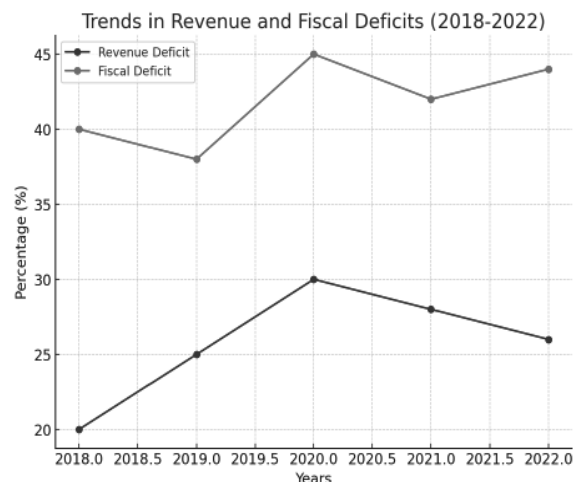
Ans :

SQP 2008

- (c) Non-Tax Revenue

According to the graph, Non-Tax Revenue and Borrowings each contribute 20%, but when compared to taxes (Direct : 35%, Indirect : 25%), Non-Tax Revenue is smaller due to its nature of being supplementary income rather than a primary revenue source.

91. The line graph below shows the trends in Revenue Deficit and Fiscal Deficit as a percentage of total government spending from 2018 to 2022.



64. Indirect taxes, unlike direct taxes, are those where the burden of taxation can be _____ to another person, usually the _____ of the goods or services.

(a) Shifted, producer
(b) Shifted, consumer
(c) Retained, government
(d) Transferred, taxpayer

Ans :

SQP 2004

(b) Shifted, consumer

Indirect taxes are levied on one party but the tax burden is transferred to consumers through increased prices of goods and services.

65. The government uses a surplus budget to _____ inflation by _____ the excess demand in the economy through fiscal measures.

(a) Control, expenditure
(b) Stimulate, demand
(c) Control, reducing
(d) Stimulate, increasing

Ans :

DELHI 2008

(c) Control, reducing

A surplus budget helps control inflation by reducing excess demand in the economy through reduced government expenditure or increased taxation.

66. Primary deficit, an indicator of fiscal health, is equal to the fiscal deficit of the government minus _____, highlighting the borrowing required for non-interest expenditures.

(a) Revenue receipts
(b) Borrowings
(c) Interest payments
(d) Capital receipts

Ans :

OD 2010

(c) Interest payments

Primary deficit is calculated as

Fiscal Deficit-Interest Payments and reflects the borrowing used for expenses other than paying interest on existing debt.

67. Capital expenditure is a critical component of government spending as it either _____ or _____, contributing to long-term economic development.

(a) Creates assets, increases liabilities
(b) Reduces assets, increases income
(c) Creates assets, reduces liabilities
(d) Increases income, reduces borrowing

Ans :

FOREIGN 2003

(c) Creates assets, reduces liabilities

Capital expenditure involves spending that results in the creation of assets or reduction of liabilities, fostering long-term development and economic growth.

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ASSERTION AND REASON

68. **Assertion** : A high primary deficit indicates fiscal responsibility of the government.

Reason : Government deficit can be reduced by increasing taxes.

(a) Both Assertion and Reason are true and Reason is the correct explanation of Assertion.
(b) Both Assertion and Reason are true and Reason is not the correct explanation of Assertion.
(c) Assertion is true but Reason is false.
(d) Assertion is false but Reason is true.

Ans :

FOREIGN 2015

(b) Assertion and reason both are correct statements but reason is not correct explanation for assertion.

69. **Assertion** : Revenue deficit increases inflationary pressures in the economy.

Reason : Foreign borrowings often lead to economic and political interference by lender countries.

(a) Both Assertion and Reason are true and Reason is the correct explanation of Assertion.
(b) Both Assertion and Reason are true and Reason is not the correct explanation of Assertion.
(c) Assertion is true but Reason is false.
(d) Assertion is false but Reason is true.

Ans :

SQP 2012

(d) Assertion is false but Reason is true. Fiscal deficit increases foreign dependence.

70. **Assertion** : In market economies, allocation of resources is determined by the forces of demand and supply.

Reason : Market economies are driven by profit motive.

- 96.** Revenue deficit occurs when revenue expenditure exceeds revenue receipts, forcing the government to borrow funds or reduce its savings to meet recurring expenses.

What does a revenue deficit indicate about government spending?

- (a) The government is generating a budget surplus.
- (b) The government is overspending its recurring income.
- (c) The government is increasing its revenue receipts.
- (d) The government is prioritizing capital investments.

Ans :

FOREIGN 2014

- (b) The government is overspending its recurring income.

Revenue deficit highlights that the government is spending more than it earns from revenue receipts, requiring external funds to fill the gap.

- 97.** Indirect taxes are levied on goods and services and their burden is ultimately borne by consumers. Examples include customs duties and sales taxes. Why might indirect taxes disproportionately affect lower-income groups?

- (a) They are progressive and target high earners.
- (b) They increase with property ownership.
- (c) They are regressive and take a larger share of lower incomes.
- (d) They are only applied to luxury goods.

Ans :

DELHI 2017

- (c) They are regressive and take a larger share of lower incomes.

Indirect taxes are regressive because they represent a higher percentage of income for lower earners compared to higher-income groups.

- 98.** Revenue receipts are collections by the government from various sources without creating liabilities. They include tax revenues and non-tax revenues, such as fees and interest from loans.

Why are revenue receipts important for the government's functioning?

- (a) They enable the government to meet recurring expenditures without increasing debt.
- (b) They help the government manage capital investments.
- (c) They are used solely for paying off borrowings.
- (d) They include only indirect taxes.

Ans :

COMP 2009

- (a) They enable the government to meet recurring expenditures without increasing debt.

Revenue receipts help fund regular expenses without adding to liabilities, allowing the government to manage its operations effectively.

- 99.** Direct taxes are imposed on income and property and are paid by the person on whom they are levied. These taxes cannot be shifted to others and are progressive in nature.

How does the progressive nature of direct taxes benefit society?

- (a) By increasing the tax burden on low-income groups
- (b) By ensuring those with higher incomes pay a larger share
- (c) By distributing the tax burden equally among citizens
- (d) By reducing government dependence on indirect taxes

Ans :

DELHI 2002

- (b) By ensuring those with higher incomes pay a larger share

Progressive taxes ensure that individuals with higher incomes contribute more, reducing income inequality.

- 100.** Capital expenditure refers to spending that results in the creation of assets or reduction of liabilities. It is crucial for long-term economic development and includes investments in infrastructure.

Why is capital expenditure essential for an economy's growth?

- (a) It ensures government operations run smoothly.
- (b) It helps reduce revenue deficits.
- (c) It builds productive capacity and enhances infrastructure.
- (d) It increases short-term revenues.

Ans :

OD 2011

- (c) It builds productive capacity and enhances infrastructure.

Capital expenditure is vital for creating assets like infrastructure, which supports sustainable economic growth.

- 101.** Fiscal deficit measures the gap between the government's total expenditure and its total receipts (excluding borrowings). It reflects the borrowing needs of the government to cover expenses.

What is a potential risk of a high fiscal deficit for

an economy?

- (a) It increases revenue receipts.
- (b) It reduces the need for capital expenditure.
- (c) It may lead to higher interest payments and inflation.
- (d) It allows for lower tax collections.

Ans :

SQP 2018

- (c) It may lead to higher interest payments and inflation.

A high fiscal deficit can lead to excessive borrowing, resulting in increased interest payments and inflationary pressures.

ONE MARK QUESTIONS

- 102.** Give any one example of 'debt creating capital receipts' in the Government Budget.

Ans :

FOREIGN 2020

Borrowings are an example of debt-creating capital receipts in the government budget.

- 103.** What is a government budget?

Ans :

FOREIGN 2007

A government budget is a detailed financial statement outlining anticipated revenues and expenditures for a fiscal year.

- 104.** Write any one objective of Government Budget.

Ans :

SQP 2008

The government aims to stabilize the economy by controlling business fluctuations.

- 105.** Define tax.

Ans :

COMP 2010

A tax is a mandatory payment to the government to cover its expenses.

- 106.** Define direct tax.

Ans :

DELHI 2003

A direct tax is one whose burden is borne by the individual on whom it is imposed, such as income tax.

- 107.** Give two examples of direct tax.

Ans :

OD 2005

Wealth tax and income tax are examples of direct

taxes.

- 108.** Gift tax is a direct tax." State whether the given statement is true or false.

Ans :

FOREIGN 2009

True, because the burden of direct taxes cannot be shifted to others.

- 109.** Define indirect tax.

Ans :

SQP 2002

An indirect tax is when the liability to pay and the incidence of the tax fall on different individuals.

- 110.** Give two examples of indirect taxes.

Ans :

COMP 2011

Excise duty and Sales tax are the two examples of indirect taxes.

- 111.** Define capital expenditure.

Ans :

DELHI 2015

Capital expenditure refers to spending that creates assets or reduces liabilities, such as purchasing land, buildings, equipment, or investments in shares.

- 112.** Define 'revenue receipts' in a government budget.

Ans :

DELHI 2014

Revenue receipts are funds the government earns without creating liabilities or reducing assets, like tax revenue.

- 113.** What are Capital Receipts in a government budget?

Ans :

OD 2018

Capital receipts in a government budget are funds that either create liabilities, such as borrowings, or reduce assets, like disinvestment of PSU.

- 114.** What is a 'revenue expenditure' in a government budget?

Ans :

SQP 2017

Revenue expenditure refers to spending that does not create assets or reduce liabilities, such as salary payments.

- 115.** Give two examples of revenue expenditure.

Ans :

COMP 2013

Examples of revenue expenditure : Expenditure on Salaries, Pensions etc.

116. What is meant by revenue deficit?

Ans :

OD 2012

Revenue deficit is the shortfall when the government's revenue expenditure exceeds its revenue receipts, calculated as :

Revenue Deficit = Revenue Expenditure – Revenue Receipts.

117. Name any one step that the government can take through its budget to check inflation that is causing hardships to the people.

Ans :

FOREIGN 2016

To control inflation, the government should reduce public expenditure.

118. State, whether the given statement is true or false : 'Expenditure on Ujjwala Yojana launched by the Government is an example of capital expenditure.'

Ans :

DELHI 2020

True, as it promotes human resource development and empowers women.

119. Subsidies are capital expenditure of the governments. State whether the given statement is true and false.

Ans :

SQP 2019

False, they are part of revenue expenditure as they neither create assets nor reduce liabilities.

TWO MARK QUESTIONS

120. With valid reasons, classify the given item into capital receipt or Revenue receipt of the government : Loan taken by the government from Reserve Bank of India (RBI).

Ans :

OD 2024

A loan taken by the government from the RBI is a capital receipt as it creates a liability for the government.

121. What is fiscal deficit?

or

State the meaning and formula of Fiscal deficit.

Ans :

OD 2024

Fiscal deficit refers to the excess of total budget expenditure over total budget receipts, excluding borrowing, during a fiscal year.

Fiscal deficit = Total budget expenditure – Total budget receipts (excluding borrowings).

122. The government plays a vital role in managing the economy by outlining its financial plan for the fiscal year. This plan ensures efficient allocation of resources and economic stability. Define a government budget.

Ans :

OD 2023

A government budget is an annual financial statement detailing estimated revenues and anticipated expenditures for a fiscal year. It outlines government receipts and expenditures for a specific period, usually one year.

123. What one step can be taken through market to reduce the consumption of a product harmful for health?

Ans :

COMP 2022

The government should impose a high tax on harmful products to discourage their consumption, protecting public health.

124. Name any one step the government can take through its budget to reduce the gap between the rich and the poor.

Ans :

DELHI 2021

The government can bridge the wealth gap by taxing the rich and subsidizing essential goods and services for the poor.

125. Explain the budgetary measures for achieving following objective.

Setting up of production units in backward regions.

Ans :

FOREIGN 2000

The government can encourage balanced regional development by promoting production units in backward areas through tax concessions, increased funding for infrastructure, subsidies and other incentives.

126. State any two sources of non-tax revenue receipts.

Ans :

SQP 2001

Two sources of non-tax revenue receipts are:

- (i) Fees and fines
- (ii) Commercial revenue
- (iii) Interest
- (iv) Dividends

127. Distinguish between Direct tax and Indirect tax.

Ans :

COMP 2004

Direct taxes, like income tax, are borne by the individuals on whom they are imposed, with no possibility of shifting the burden. Indirect taxes, such as excise duty and sales tax, are levied on traders or manufacturers but ultimately passed on to consumers of the taxed goods.

- 128.** Giving reasons classify the following into direct and indirect tax:

- (i) Wealth tax
- (ii) Value added tax

Ans :

DELHI 2007

- (i) Wealth tax is a direct tax as its burden is borne solely by the individual on whom it is imposed, without transfer to others.
- (ii) Value-added tax (VAT) is an indirect tax, paid by producers and sellers, but its burden is shifted to consumers who ultimately bear the cost.

- 129.** Is the following a revenue receipt or a capital receipt in the context of government budget and why?

- (i) Tax receipts
- (ii) Disinvestment

Ans :

OD 2008

- (i) Tax receipts are revenue receipts because they do not create liabilities or reduce asset values.
- (ii) Disinvestment is a capital receipt as it results in a reduction of government assets.

- 130.** Does public debt impose a burden. Explain.

Ans :

FOREIGN 2010

A burden arises only when :

- (i) The government imposes new taxes or increases existing ones.
- (ii) Public debt is raised for unproductive purposes.
- (iii) Debt repayment is done by printing currency notes.

- 131.** How is primary deficit calculated?

or

State the meaning and formula of Primary deficit.

Ans :

SQP 2003

Primary deficit represents the fiscal deficit after deducting interest payments. It indicates the borrowing requirements of the government excluding interest obligations on past borrowings.

Simply put, primary deficit is calculated by subtracting interest payments from the fiscal deficit.

Formula : $\text{Primary Deficit} = \text{Fiscal Deficit} - \text{Interest Payments}$.

It reflects the current financial position without the burden of previous debts.

- 132.** 'Fiscal deficit is always harmful'. State whether the given statement is true and false.

Ans :

COMP 2005

This statement is incorrect, as it can also result in an increase in the supply of goods and services or enhance the productive capacity of the economy. By fostering better utilization of resources, it contributes to economic growth and development, ensuring a more efficient and robust production framework that benefits the overall economy.

- 133.** Suppose you are a member of the "Advisory Committee to the Finance Minister of India". The Finance Minister is concerned about the rising Revenue Deficit in the budget.

Suggest any one measure to control the rising Revenue Deficit of the government.

Ans :

DELHI 2019

The government can reduce its revenue deficit by lowering productive capital expenditure or curtailing welfare spending. This involves cutting costs on development projects or social welfare programs to balance the budget. However, such measures may have implications for economic growth and social development, as reduced investment in these areas can impact long-term productivity and societal well-being.

- 134.** _____ Deficit includes interest payment by the Government on the past loans. (Fill up the blank with correct answer)

Ans :

DELHI 2020

Fiscal deficit includes interest payment by the government on the past loans.

Fiscal deficit encompasses the total borrowing requirements of the government, including the interest payments on past loans. It reflects the shortfall between the government's total expenditure and its revenue, excluding borrowings. The inclusion of interest payments in fiscal deficit indicates the government's obligation to service its existing debt, adding to its overall financial burden.

- 135.** Revenue deficit can be lowered by borrowings and disinvestment. Does the same apply to fiscal deficit as well? Explain.

Ans :

OD 2002

No, this is not possible because disinvestment, classified as a capital receipt, is already accounted for when calculating fiscal deficit. Consequently, fiscal deficit cannot be managed through disinvestment alone. The government must rely on borrowings to address fiscal deficits, as it represents the shortfall in resources that cannot be bridged by other revenue or capital receipts.

- 136.** Trade deficit is always a great cause of worry for an economy. (True/false)

Ans :

COMP 2020

False; a trade deficit is not always a cause for concern. Initially, it may indicate an improved standard of living, as residents gain access to diverse goods and services at competitive prices, potentially lowering inflation. However, a persistent trade deficit can lead to predictable negative impacts on economic growth and stability. Its implications depend on the broader economic context.

- 137.** Are fiscal deficits necessarily inflationary?

Ans :

FOREIGN 2011

Fiscal deficits can lead to inflation if financed by printing new currency, as this increases the money supply, driving up demand and prices. However, if the fiscal deficit results in an increased supply of goods and services or is directed towards infrastructure development and other capital projects, it may not cause inflation and could instead boost economic growth.

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- 138.** Is the following revenue expenditure or capital expenditure in the context of government budget? Give reason.

- Expenditure on collection of taxes.
- Expenditure on purchasing computers.

Ans :

SQP 2014

- Expenditure on tax collection is classified as revenue expenditure since it does not lead to the creation of any asset or reduction in government liability.

- Expenditure on purchasing computers is considered capital expenditure because it involves the creation of tangible assets, contributing to the government's productive capacity and long-term infrastructure development. Both expenditures serve distinct purposes in fiscal management.

THREE MARK QUESTIONS

- 139.** "Under the 'Production Linked Incentive' scheme, the Government of India offers various benefits like reduced import-export duties, incentives to investors, tax-rebates etc."

In the light of above statement, identify and explain the Budget objective and its likely consequences.

Ans :

OD 2024

The Production Linked Incentive (PLI) Schemes introduced by the Indian government aim to achieve significant economic benefits, primarily by reducing reliance on foreign countries and boosting employment in labor-intensive sectors. A core objective of this scheme is to promote GDP growth, a key focus of the government's budgetary policy. By encouraging both foreign and domestic companies to establish or expand production units in India, the scheme enhances the global competitiveness of Indian products by lowering production costs. Additionally, it attracts foreign investments and advanced technologies, fostering core sector development, export growth and job creation. The scheme's advantages include reducing imports, generating employment and driving sustainable economic growth.

- 140.** Distinguish between revenue receipts and capital receipts. Give an example of each.

Ans :

OD 2024

Revenue receipts are those receipts which do not create any liability or which do not reduce assets, such as tax revenue.

Capital receipts are those receipts which are created either by incurring a liability or by disposing off assets, such as public debt, disinvestment, etc.

Capital Receipt and Revenue Receipt

Basis	Capital Receipt	Revenue Receipt
-------	-----------------	-----------------

Meaning	Capital receipt are these receipts which are created either by incurring a liability or by disposing off assets such as public debt, disinvestment, etc.	Revenue Receipt are those receipt which do not create any liability or which do not reduce assets, such as tax revenue.
Nature	Non-recurring	Recurring
Value of or Assets Liability	It decreases the value of asset or increases the value of liability.	It increases or decrease the value of asset or liability.
Example	Provident fund, small savings deposits.	Proceeds from taxes, interest and dividend.

- 141.** “Under ‘Zero Defect, Zero Effect’ (ZED) scheme, the government of India provides up to 80% subsidy to Mini, Small and Medium Enterprises (MSME).”

Identify and explain the objective of government budget, highlighted in the above text.

Ans :

OD 2024

The government budget in this context emphasizes the objective of resource allocation. By providing subsidies to Micro, Small and Medium Enterprises (MSME), the government aims to boost national output, attract advanced technology and create employment opportunities. These efforts align with broader socio-economic objectives, such as reducing poverty and promoting equitable growth. In a developing country like India, such measures play a vital role in fostering inclusive economic development, enhancing productivity and contributing to the overall growth and sustainability of the economy.

- 142.** Responding to the Prime Minister’s ‘Give it up campaign’ a large number of Indian families have voluntarily surrendered their cooking gas subsidy. Identify and explain the objective behind this action taken by the Government of India.

Ans :

OD 2024

The government budget objective highlighted here is the allocation of resources. The ‘Give It

Up’ campaign encourages LPG users who can afford market prices to voluntarily forgo their LPG subsidies. This initiative has been highly effective, with numerous households surrendering their subsidies, directly reducing the government’s financial burden. The savings generated from this initiative provide the government with additional funds, which can be reallocated to produce essential public goods and services, addressing critical societal needs and fostering economic growth and welfare.

- 143.** Explain any one objective of Government Budget in 50 words.

Ans :

COMP 2018

One of the main aims of a government budget is to ensure economic stability. A nation’s economy often experiences fluctuations, such as booms and depressions, which can benefit some while harming others. To address these imbalances, governments employ stabilization measures designed to regulate aggregate demand. These measures help prevent inflation and reduce unemployment, ensuring stable growth. Through effective policy actions, economic stability can be maintained, minimizing the adverse effects of economic fluctuations on different segments of the population.

- 144.** State three objectives of a government budget.

Ans :

DELHI 2020

- The government utilizes the budget as a tool to allocate resources effectively, aiming to achieve socio - economic objectives.
- By leveraging the budget, it seeks to influence the distribution of income in the country. Efforts are directed towards ensuring a fairer distribution of wealth and income, thereby reducing economic inequalities and benefiting the underprivileged sections of society.
- Additionally, the government employs the budget to promote economic stability, addressing the challenges posed by booms and depressions to maintain steady economic growth.

- 145.** Explain the ‘allocation of resources’ objective of a government budget.

or

Explain how government can influence allocation of resources through government budget.

Ans :

OD 2017

The allocation of resources is an essential responsibility of the government, which includes providing public goods like national defense and government administration. Unlike private goods, public goods cannot be supplied through market mechanisms but are crucial for the well-being of all citizens. Hence, the government must balance resources between private and public goods. While private goods are limited to individuals who can afford them, public goods are accessible to everyone, including those who cannot afford them, ensuring broader social welfare.

- 146.** What are the three levels at which the budget impacts the economy?

Ans :

FOREIGN 2013

- (i) Aggregate fiscal discipline refers to maintaining a proper balance between the government's revenue and expenditure, ensuring financial stability.
- (ii) Resource allocation is carried out in alignment with social priorities, focusing on addressing the needs and welfare of society.
- (iii) Effective and efficient program delivery highlights how well the government achieves its set objectives, ensuring that the implemented programs meet intended goals and deliver maximum benefits to the population. Together, these principles form the foundation of sound fiscal management.

- 147.** Explain the 'economic stability' objective of a government budget.

or

Explain how government budget can be helpful in bringing economic stabilization in the economy.

Ans :

COMP 2012

Economic stability refers to maintaining steady prices without significant fluctuations. The government plays a crucial role in achieving this by managing general price levels through tools like taxes, subsidies and expenditure. Both inflation and deflation are detrimental to the economy. To address these issues, budgetary measures are employed. During inflation, the government may reduce its expenditure to curb demand, while during deflation, it can lower taxes and provide subsidies to boost spending, thereby stabilizing the economy and promoting sustainable growth.

- 148.** Explain the 'price stability' function of a government budget.

Ans :

DELHI 2016

One of the key functions of the government budget is to ensure price stability, which means maintaining steady prices without significant fluctuations. The government achieves this by utilizing its taxation and expenditure policies to manage aggregate demand. In times of inflation, it reduces government expenditure and increases taxes to curb excessive demand. Conversely, during periods of falling prices or deflation, the government boosts aggregate demand by increasing its spending and reducing taxes, ensuring economic balance and price stability.

- 149.** Taxation is an effective tool to reduce the inequalities of income.

Justify the given statement with valid reasons.

Ans :

FOREIGN 2020

Economic inequality is a natural feature of all economic systems and governments strive to minimize such disparities through budgetary policies. One key approach is the implementation of progressive taxation, where tax rates increase with higher income levels. The government imposes higher taxes on wealthy individuals while taxing lower-income groups at reduced rates. This strategy narrows the gap in disposable income between the rich and the poor, helping to reduce income inequalities and fostering a more equitable distribution of wealth in society.

- 150.** The government budget plays a crucial role in addressing economic imbalances and ensuring the optimal use of available resources. How can a government budget help in reallocation of resources? Explain.

Ans :

SQP 2015

A key aim of the government budget is to allocate resources effectively to achieve socio-economic goals. The government can reallocate resources using its taxation policies. It may reduce taxes on goods that promote desired production and increase taxes on those it aims to discourage. For instance, taxes on essential goods for mass consumption might be reduced, while higher taxes could be imposed on luxury items. Additionally, resources can be directed toward enhancing investments, reducing income inequality and improving health care and education.

- 151.** Tax rates on higher income group have been increased. Which economic value does it reflect?

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Explain.

Ans :

COMP 2021

Economic inequality is a fundamental characteristic of all economic systems and governments actively work to reduce these disparities. By implementing taxation policies that impose higher taxes on the wealthy, the government reduces their disposable income. The revenue generated from these taxes is then redirected toward welfare programs aimed at supporting the underprivileged. Initiatives like education, healthcare and social support help improve the standard of living for the poor. This approach effectively narrows income gaps and promotes a more equitable distribution of resources.

- 152.** Reduction in income inequalities raises welfare of the people. How can government help through government budget, in this regard? Explain.

Ans :

SQP 2022

Income inequalities negatively impact the welfare of people, as those in lower-income groups often struggle to meet their basic needs. To enhance societal welfare, it is essential to reduce these disparities. The government plays a crucial role in this effort through its budgetary policies. By taxing the wealthy and allocating funds to projects that directly benefit the poor such as free education, healthcare services and minimum wage programs the government works toward equitable growth. In India, significant public spending is dedicated to such welfare initiatives, improving the lives of the underprivileged.

- 153.** How can government budget be helpful in altering the income distribution? Explain.

or

How can budgetary policy be used to reduce inequalities of income?

Ans :

OD 2019

The government budget plays a significant role in influencing the redistribution of income within society. By employing fiscal tools such as taxation, subsidies and public expenditure, the government can promote greater equity. Higher taxes can be imposed on individuals in higher income brackets, thereby reducing their disposable income. The revenue generated can be allocated to welfare programs for underprivileged groups, such as providing subsidies for essential goods and services. This approach reduces income disparities

and enhances the living standards of the poor.

- 154.** Government incurs expenditure to popularize yoga among the masses. Analyses its impact on gross domestic product and welfare of the people.

Ans :

DELHI 2023

The government's effort to promote yoga aims to enhance health awareness and encourage the adoption of a healthy lifestyle among the masses. This initiative offers long-term benefits to both society and the economy by improving physical and emotional well-being. A healthier, fitter workforce contributes positively to the country's GDP through increased productivity, efficiency and reduced absenteeism. Improved fitness levels and stamina enable individuals to work more effectively, resulting in higher availability of goods and services per capita, ultimately enhancing societal welfare and economic prosperity.

- 155.** Distinguish between revenue receipts and capital receipts. Give two examples of each.

Ans :

COMP 2009

Revenue receipts are those receipts that do not create a liability for the government nor lead to a reduction in its assets. They include tax revenue, such as income tax and non-tax revenue, like fees, fines and dividends. In contrast, capital receipts are funds acquired by the government either through the creation of liabilities or the sale of assets. Examples include borrowing funds from the public or raising money through disinvestment by selling shares of public sector units. Unlike revenue receipts, capital receipts involve either incurring liabilities or reducing government-owned assets.

- 156.** Government raises its expenditure on producing public goods. Which economic value does it reflect? Explain.

Ans :

OD 2000

The government enhances economic and social welfare by increasing expenditure on public goods, helping to control deflationary trends and achieve economic stability. Economic stability, defined as the absence of price fluctuations, is essential for reducing uncertainties in the economy. By managing its spending, the government addresses such fluctuations effectively. For instance, to counter deflation, it can increase investment in public goods and welfare programs, accelerating

economic growth. Since public goods cannot be supplied by the private sector through market mechanisms, the government ensures their availability to meet societal needs and drive development.

- 157.** In its budget, the government of India proposed to raise the excise duty on liquor. The Finance minister also proposed to increase income tax on individuals earning more than ₹ 1 corer per annum.

Identify and explain the type of taxes proposed by the finance minister. What possible welfare objectives could the government be considering?

Ans :

FOREIGN 2001

Excise duty is an indirect tax, where the tax burden can be transferred to others, while income tax is a direct tax paid by the individual on whom it is levied. Beyond revenue generation, these taxes serve broader welfare objectives. For instance, higher excise duty can raise product prices, discouraging harmful consumption and improving public health. Increased income tax on higher earners reduces income inequalities, fostering social equity. Additionally, the extra revenue generated can be allocated to welfare programs for the underprivileged, enhancing their quality of life.

- 158.** State three sources each of revenue receipts and capital receipts in government budget.

Ans :

SQP 2004

The government generates revenue through various sources, classified into revenue and capital receipts. Key sources of revenue receipts include direct taxes, such as income tax, indirect taxes like GST and commercial revenue from government-owned enterprises. Capital receipts, on the other hand, are obtained from sources such as loan recoveries, borrowings from domestic or international markets and funds raised through disinvestment of government stakes in public sector undertakings. These receipts are crucial for funding public expenditures and supporting economic development initiatives.

- 159.** What are non-debt creating capital receipts? Give two examples of such receipts.

Ans :

DELHI 2008

Capital receipts are classified as either debt-creating or non-debt-creating. Non-debt-creating

capital receipts are those that do not involve borrowings and, hence, do not lead to debt accumulation. Examples include recovery of loans and proceeds from disinvestment.

- (i) Recovery of loans : The government provides loans to states and union territories, which are financial assets. When these loans are recovered, it results in a capital receipt as it decreases government assets.
- (ii) Disinvestment : Selling shares of public sector undertakings constitutes disinvestment. The proceeds are capital receipts because they reduce government-owned assets.

- 160.** Explain the basis of classifying government receipts into revenue receipts and capital receipts. Which type of these receipts are borrowings by government and why?

Ans :

OD 2010

Receipts are classified into revenue receipts and capital receipts based on whether they create or reduce liability. Revenue receipts are those that neither create a liability nor lead to a reduction in government assets, such as tax revenues and non-tax revenues. In contrast, capital receipts either create a liability or reduce the government's assets. For example, government borrowings are considered capital receipts, as they generate liabilities that the government is obligated to repay in the future, reflecting their distinct financial impact.

- 161.** Classify the following into capital receipts and revenue receipts. Give reasons for your answer.

- (i) Recovery of loans
- (ii) Interest received on loans

Ans :

FOREIGN 2003

- (i) The recovery of loans is categorized as a capital receipt because it results in a reduction of the government's financial assets. This occurs when the government recovers funds previously loaned to states, union territories, or other entities.
- (ii) Interest received on loans, on the other hand, is classified as a revenue receipt. This is because it represents income earned by the government and does not involve the creation of liabilities or the reduction of any government assets, making it a recurring source of revenue.

162. Classify the following into revenue and capital receipts. Give reasons.

- (i) Sale of shares of a PSU.
- (ii) Profit and dividend received from public sector undertakings.
- (iii) Cash grants-in-aid from foreign countries and international organizations.
- (iv) Recovery of loan

Ans :

COMP 2007

- (i) A capital receipt occurs when it results in a reduction of the government's assets.
- (ii) A revenue receipt is characterized by the fact that it neither creates any liability nor leads to a reduction in the government's assets.
- (iii) Another example of a revenue receipt is one that does not affect the government's assets or liabilities.
- (iv) A capital receipt arises when there is a decrease in the government's assets, reflecting its non-recurring nature in financial transactions.

163. With valid reasons, classify the following into Capital receipts or Revenue receipts of the government:

- (i) Dividend received by the government from a Mahabharata company.
- (ii) Receipts of the government from sale of shares of a Public Sector Undertaking (PSU) in open market.
- (iii) Debt cleared by Sri Lanka Government to the Indian Government.

Ans :

OD 2024

- (i) Dividends received by the government from a Maharatna company are considered revenue receipts because they constitute income and do not create any liability or reduce the government's assets.
- (ii) Proceeds from the sale of shares of a Public Sector Undertaking (PSU) in the open market are capital receipts, as they result in a reduction of the government's assets.
- (iii) Repayment of debt by the Sri Lankan government to the Indian government is categorized as a capital receipt because it decreases the financial assets of the Indian government.

164. Classify the following taxes into direct and indirect tax. Give reasons for your answer:

- (i) Corporation tax
- (ii) Entertainment tax
- (iii) Excise duty

(iv) Income tax

Ans :

SQP 2005

- (i) Corporation tax is classified as a direct tax because both its impact and incidence fall on the same entity the company paying the tax.
- (ii) Entertainment tax is an indirect tax since its impact and incidence are borne by different individuals; the provider collects the tax but passes the burden to consumers.
- (iii) Excise duty is another example of an indirect tax, as its payment burden can be shifted from manufacturers to consumers.
- (iv) Income tax is a direct tax, where both its impact and incidence rest on the individual earning the income.

165. Explain ‘revenue deficit’ in a government budget?
What does it indicate?

Ans :

DELHI 2002

Revenue deficit occurs when total revenue expenditure exceeds total revenue receipts, calculated as :

$$\text{Revenue Deficit} = \text{Total Revenue Expenditure} - \text{Total Revenue Receipts}.$$

It highlights the shortfall in current expenditure that revenue receipts cannot cover, indicating the need for borrowings to bridge the gap. An increase in revenue expenditure without a proportional rise in revenue receipts leads to a higher revenue deficit. This, in turn, necessitates additional borrowing, thereby increasing the government's financial liability and impacting fiscal stability.

FOUR MARK QUESTIONS

166. Explain the need for reduction in inequalities of income and wealth. Explain any two budgetary measures by which it can be done.

or

Explain how taxes and government expenditure can be used to influence distribution of income in the society.

or

Explain how the government can use the budgetary policy in reducing inequalities in incomes.

or

‘Government Budget can be a useful instrument in reducing inequalities in the distribution of income and wealth in an economy’.

Do you agree with the given statement? Present valid arguments in favour of your answer.

Ans :

OD 2024

In developing countries like India, income and wealth distribution is highly unequal, leaving the poor trapped in a cycle of poverty. Limited skills and resources prevent them from bridging this economic gap, leading to worsening living standards and underutilization of a significant portion of the workforce. To address this, the government employs revenue and expenditure policies. It can impose higher taxes on the rich and goods they consume while reducing taxes for lower-income groups, narrowing the income disparity. Revenue generated can fund welfare programs, transfer payments, subsidies and free services like healthcare and education, boosting disposable incomes, improving living standards and enhancing overall welfare.

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- 167.** Explain the basis of classifying taxes into direct and indirect tax. Give examples.

or

Distinguish between Direct tax and Indirect tax with suitable examples.

Ans :

OD 2024

Direct Taxes are taxes imposed on individuals or entities based on their income or property. Examples include Income Tax and Corporate Tax. In the case of direct taxes, both the responsibility to pay and the burden of the tax fall on the same individual or entity, meaning the liability cannot be transferred to another person.

Indirect Taxes on the other hand, are levied on goods or services, such as Service Tax and Value Added Tax (VAT). Unlike direct taxes, the liability to pay and the actual burden of these taxes fall on different individuals, as their cost is ultimately passed on to consumers.

Basis of Classification : Shifting of burden is the basis of classifying taxes into Direct and Indirect Tax.

- (i) If burden of a tax can be shifted to others, it is an indirect tax.
- (ii) If it cannot be shifted to others, it is a direct tax.

Difference between Direct taxes and Indirect taxes

	Basis	Direct Tax	Indirect Tax
1.	Meaning	A tax is called a direct tax when the burden of the tax is borne by the one upon whom it is levied.	Indirect taxes are those which are ultimately borne by a third person, i.e., other than the open upon whom it is levied.
2.	Transferability	The burden of tax cannot be shifted to another person.	The burden of tax can be shifted to another person.
3.	Example	For example, Income tax, Wealth tax, etc.	For example, Excise duty, Sales tax, etc.

- 168.** What is government budget? Explain its major components.

Ans :

DELHI 2018

A government budget is a formal statement presenting the estimated government receipts and expenditures for the upcoming fiscal year. It comprises two key components:

- (i) Budget Receipts :
 - (a) Capital Receipts : These involve borrowings, loan recoveries, disinvestment and small savings, as they create liabilities or reduce assets.
 - (b) Revenue Receipts : These include tax and non-tax revenues like interest, profits, fees and fines, without creating liabilities or reducing assets.
- (ii) Budget Expenditure :
 - (a) Capital Expenditure : Spending that builds assets or reduces liabilities, such as investment in assets or shares.
 - (b) Revenue Expenditure : Costs for running government departments and services, like salaries, without asset creation or liability reduction.

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- (i) Define the government budget and explain its main divisions.
- (ii) Differentiate between revenue receipts and capital receipts with examples.
- (iii) What is the role of capital expenditure in the economy and how does it differ from revenue expenditure?
- (iv) List and explain the types of taxes included under revenue receipts.

Ans :

- (i) A government budget is an annual statement of estimated receipts and expenditures for a fiscal year. It is divided into:
 - (a) Revenue Budget : Includes revenue receipts and revenue expenditure.
 - (b) Capital Budget : Includes capital receipts and capital expenditure.
- (ii) Revenue receipts do not create liabilities or reduce assets, e.g., income tax. Capital receipts create liabilities or reduce assets, e.g., borrowings.
- (iii) Capital expenditure creates assets or reduces liabilities, e.g., infrastructure projects. Revenue expenditure is recurring, covering operational costs, e.g., salaries.
- (iv) Revenue receipts include:
 - (a) Direct Taxes : Levied on income and property, e.g., income tax.
 - (b) Indirect Taxes : Levied on goods and services, e.g., customs duty.

190. The Union Budget is divided into two main components : Revenue Budget and Capital Budget. Revenue receipts, a part of the Revenue Budget, do not create liabilities or reduce assets and include tax and non-tax revenues. Tax revenue is further classified into direct taxes, like income tax and corporation tax and indirect taxes, such as sales tax and customs duty.

Capital receipts, on the other hand, either create liabilities or reduce financial assets. These include borrowings from the public, loans from foreign governments and recovery of loans given by the central government. While revenue expenditure involves recurring costs like salaries and pensions, capital expenditure focuses on asset creation, such as infrastructure projects.

- (i) What are the two main components of the Union Budget?

- (ii) Explain the difference between tax revenue and non-tax revenue.
- (iii) What distinguishes capital receipts from revenue receipts?
- (iv) How does capital expenditure benefit the economy?

Ans :

- (i) The two main components of the Union Budget are Revenue Budget and Capital Budget.
- (ii) Tax revenue comes from taxes like income tax and sales tax. Non-tax revenue includes income from interest, fees and grants.
- (iii) Revenue receipts do not create liabilities or reduce assets, while capital receipts either create liabilities or reduce assets.
- (iv) Capital expenditure helps in asset creation and long-term economic growth, e.g., building infrastructure.

191. Read the para given below and answer the questions that follow:

As per Article 112 of the Indian Constitution, the presentation of a budget in Parliament before the start of each financial year is mandatory. The Union Budget aims to promote rapid and balanced economic growth while ensuring social justice and equality.

It optimally allocates resources to maximize government profits, fostering public welfare. One of its key objectives is to reduce poverty and create employment opportunities. The budget also influences income distribution through subsidies and taxation. Higher taxes are levied on the wealthy to reduce their disposable income, while lower-income groups are charged lower tax rates to ensure adequate disposable income.

The Union Budget plays a vital role in managing economic fluctuations. It helps control inflation by implementing surplus budget policies and addresses deflation through deficit budget policies, maintaining price stability. Additionally, it outlines changes to the country's direct and indirect tax structures, including revisions to income tax rates and brackets.

The Union Budget has a significant impact on various aspects of the economy, making it essential to understand its purpose and importance.

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Meaning	Revenue receipts refer to those receipts which neither create any liability nor cause any reduction in the assets of the government.	Capital receipts refer to those receipts which either create a liability or cause a reduction in the assets of the government.
Nature	These are regular and recurring in nature.	These are irregular in nature.
Future Obligation	There is no future obligation to return the amount.	In case of certain capital receipts (like borrowings), there is a future obligation to return the amount along with its interest.
Examples	Taxes received by the government, non-tax revenue like interest, fees etc.	Loans taken by the government, recovery loans given to the state governments etc.

Components of Revenue Receipts:

Revenue Receipts are government incomes that do not create liabilities or reduce assets. They include :

- (i) Tax Revenue : This comprises taxes and duties levied by the union government, such as income tax, corporate tax, excise duty, customs duty and service tax.
- (ii) Non-Tax Revenue : This includes incomes from sources other than taxes, such as interest, dividends, fees, fines, gifts and grants.

Capital Receipts are funds that create liabilities or reduce government assets. Key components are :

- (i) Borrowings : Funds raised from the open market, central banks, foreign governments and institutions like the World Bank and IMF.
- (ii) Loan Recovery : Repayments of loans provided to state governments and union territories.
- (iii) Other Receipts : These include disinvestment of public sector undertakings, small savings

like post office deposits and sales of National Savings Certificates.

- 174.** Define Revenue receipts in a government budget. Explain how government budget can be used to bring in price stability in the economy.

Ans :

FOREIGN 2017

Revenue receipts refer to the government's money inflows that neither create liabilities nor reduce assets. These include tax revenues such as income tax, duties, fines and non-tax revenues like interest, dividends and earnings from government investments. The government budget plays a critical role in maintaining economic stability by addressing inflation or deflation, which cause economic uncertainties. Price stability is essential for a stable economy and the government manages fluctuations through fiscal measures. During inflation, it can curb spending by raising taxes and reducing its expenditure. Conversely, during deflation, it can stimulate spending by offering tax concessions, subsidies and increasing public expenditure.

- 175.** The Government, under Ujjwala Yojana, is providing free LPG kitchen gas connections to the families 'below the poverty line'. What objective the government is trying to fulfil through the government budget and how? Explain.

Ans :

DELHI 2020

The government seeks to reduce income and wealth inequalities through measures like providing free LPG connections to families below the poverty line. Such inequalities are socially unjust as they leave many unable to meet basic needs like food, clothing and shelter. To address this, the government redistributes income by charging higher LPG prices to wealthier households and using the revenue to subsidize LPG for the underprivileged. This redistribution function extends to offering subsidies and essential services like free education and healthcare to low-income groups. Progressive income taxation, where higher incomes attract higher tax rates, is another effective tool to combat inequality.

- 176.** Distinguish between Capital expenditure and Revenue expenditure.

or

Distinguish between Revenue Expenditure and Capital Expenditure of a government, with suitable

example.

Ans :

SQP 2013

Capital expenditure and Revenue expenditure

	Basis	Capital Expenditure	Revenue Expenditure
1.	Meaning	An expenditure which either creates an asset or reduces liability is called Capital Expenditure.	An expenditure which neither creates asset nor reduces liability is called Revenue Expenditure.
2.	Used for	It is incurred for acquisition of assets and granting of loans and advances.	It is incurred for normal functioning of the government.
3.	Nature	It is non-recurring in nature.	It is recurring in nature.
4.	Example	Construction of a Hospital Building, Re-payment of loan, purchase of computers.	Expenditure on medicines and salaries of doctors, subsidies, payment of interest, grants, collection of taxes.

- 177.** What is the basis of classifying government expenditure into 'Revenue Expenditure' and 'Capital Expenditure'? Which of these types of expenditure is payment of salaries to government employees and why?

Ans :

COMP 2015

Government expenditure is classified into Revenue Expenditure and Capital Expenditure based on whether it leads to asset creation or liability reduction.

Revenue Expenditure includes spending that neither creates assets nor reduces liabilities. It typically involves recurring expenses such as salaries, pensions and operational costs of government departments. These expenditures are necessary for maintaining routine government

functions but do not add to the nation's asset base.

Capital Expenditure, on the other hand, results in the creation of long-term assets or reduces existing liabilities. Examples include investments in infrastructure like roads, bridges and buildings, as well as the purchase of land. Payment of salaries is revenue expenditure since it neither builds assets nor lowers liabilities.

- 178.** Explain the concept of 'fiscal deficit' in a government budget. What does it indicate?

Ans :

OD 2016

Fiscal deficit represents the shortfall when the government's total expenditure exceeds its total receipts, excluding borrowings, within a fiscal year. It reflects the borrowing needs of the government and has significant implications for the economy :

- Increased Borrowings : A rising fiscal deficit indicates growing government borrowings, which lead to higher debt repayment obligations in the future.
- Inflationary Pressure : To meet borrowing needs, the government may rely on the Reserve Bank of India (RBI). When the RBI prints additional currency, it increases money supply, fueling inflation.
- Reduced Capital Expenditure : High fiscal deficits strain revenue expenditure for debt servicing, leaving fewer resources for capital investments crucial for economic growth and development.

- 179.** Explain the meaning and implications of revenue deficit.

Ans :

DELHI 2012

Revenue deficit refers to the situation where the government's total revenue expenditure exceeds its total revenue receipts. It is calculated as :

Revenue Deficit = Total Revenue Expenditure – Total Revenue Receipts.

Revenue expenditures include payments for salaries, pensions and interest, along with costs for maintaining administrative and defense services. Revenue receipts, on the other hand, consist of tax and non-tax revenues.

Implications :

- A revenue deficit indicates a shortfall that must be covered by the capital budget, leading to either liabilities or asset reduction.

- (ii) High revenue deficits signal the need for the government to reduce expenditure or increase revenue.
- (iii) It reflects reliance on borrowing to finance routine expenditures, highlighting a potentially unsustainable fiscal policy.

180. Give meanings of revenue deficit, fiscal deficit and primary deficit.

Ans :

FOREIGN 2019

Revenue Deficit occurs when the government's total revenue expenditure exceeds its total revenue receipts. It is calculated as :

Revenue Deficit = Total Revenue Expenditure – Total Revenue Receipts.

Examples of revenue expenditure include payments for salaries, pensions, interest and administrative or defense services. Revenue receipts primarily consist of tax and non-tax revenues.

Fiscal Deficit refers to the gap between total government expenditure and its total receipts, excluding borrowings. The formula is :

Fiscal Deficit = Total Expenditure – Total Receipts (excluding borrowings). This deficit reflects the extent of government borrowing.

Primary Deficit measures fiscal deficit minus interest payments on prior borrowings, indicating additional borrowing needed to cover non-interest expenses.

Primary Deficit = Fiscal Deficit – Interest Payments.

181. Distinguish between revenue deficit and fiscal deficit.

Ans :

SQP 2022

Revenue Deficit refers to the shortfall when total revenue expenditure exceeds total revenue receipts. It is calculated as :

Revenue Deficit = Total Revenue Expenditure – Total Revenue Receipts.

In contrast, Fiscal Deficit represents the excess of total government expenditure over the sum of revenue and capital receipts, excluding borrowings. The formula is :

Fiscal Deficit = Total Budget Expenditure – (Revenue Receipts + Capital Receipts excluding borrowings).

The key distinction is that revenue deficit pertains specifically to revenue receipts and revenue expenditures, whereas fiscal deficit encompasses the gap between total expenditures (both revenue and capital) and total receipts, excluding

borrowed funds.

Difference between Revenue deficit & Fiscal deficit

Basis	Revenue deficit	Fiscal deficit
Meaning	It is the excess of total revenue expenditure over total revenue receipts.	It is the excess of total over the total receipts excluding borrowings.
Measurability	Revenue deficit measures the inability of the government to meet its regular needs.	It is the excess of total over the total receipts excluding borrowings.
Formula	Revenue deficit = Total Revenue expenditure – Revenue receipts	Fiscal deficit = Total expenditure – Total receipts excluding borrowings.

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182. Distinguish between Fiscal deficit and Primary deficit.

Ans :

COMP 2021

Fiscal Deficit represents the shortfall when the government's total expenditure, including both revenue and capital expenditures, exceeds its total receipts, comprising revenue and capital receipts, excluding borrowings. It highlights the borrowing needs of the government for the fiscal year. The formula is :

Fiscal Deficit = Total Expenditure – Total Receipts (excluding borrowings).

Primary Deficit is derived by subtracting interest payments on past borrowings from the fiscal deficit, reflecting the actual borrowings needed to meet current expenditures.

Primary Deficit = Fiscal Deficit – Interest Payments.

Fiscal deficit and Primary deficit

	Basis	Fiscal deficit	Primary deficit
1.	Meaning	Fiscal deficit is defined as excess of total budget expenditure over total budget receipts excluding borrowings during a fiscal year.	Primary deficit is defined as fiscal deficit of current year minus interest payments on accumulated debt.
2.	Measurability	It measures the government needs to borrow from market to meet its expenditures.	It indicates how much government borrowing is needed to meet its expenses other than interest payments.
3.	Formula	Fiscal deficit = Total expenditure – Total Receipts excluding borrowings.	Primary deficit = Fiscal deficit – Interest deficit

183. Explain the role the government can play through the budget in influencing allocation of resources.

Ans :

FOREIGN 2014

The government budget plays a vital role in allocating resources to achieve socio-economic objectives. Resources are directed toward various projects and activities through budgetary policy. The government encourages investment by offering tax concessions and subsidies to producers. It also discourages harmful goods like cigarettes and liquor through heavy taxation while promoting beneficial goods like khadi with subsidies. When private enterprises avoid producing essential goods due to low profitability, the government steps in to produce them directly.

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NUMERICAL QUESTIONS

184. Using the given data, calculate the following:

- Fiscal Deficit
- Primary Deficit
- Interest Payments

(₹ in crore)

- | | | |
|-------|---------------------|------------------------|
| (i) | Revenue expenditure | 70 |
| (ii) | Borrowings | 15 |
| (iii) | Revenue receipts | 50 |
| (iv) | Interest payments | 25% of revenue deficit |

Ans :

DELHI 2023

- Fiscal Deficit = Borrowings = ₹15 crore
- Primary Deficit = Fiscal deficit – interest payments
 $= 15 - 5 = ₹10$ crore
 Revenue Deficit = (i) – (iii)
 $= 70 - 50 = ₹20$ crore
 (iii) Interest payments = 25% of ₹20 = ₹5 crore

185. Using the given data, calculate the following:

- Revenue deficit
- Fiscal deficit and
- Primary deficit.

		(₹ arab)
(i)	Capital receipts net of borrowings	95
(ii)	Revenue expenditure	100
(iii)	Interest payments	10
(iv)	Revenue receipts	80
(v)	Capital expenditure	110

Ans :

- Revenue Deficit
 $= \text{Revenue expenditure} - \text{Revenue receipts}$
 $= ₹100 - ₹80 = ₹20$ arab
- Fiscal deficit
 $= \text{Revenue expenditure} + \text{Capital expenditure} - \text{Revenue receipts} - \text{Capital receipts net of borrowings}$
 $= 100 + 110 - 80 - 95 = ₹35$ arab
- Primary deficit
 $= \text{Fiscal deficit} - \text{Interest payments}$
 $= 35 - 10 = ₹25$ arab

- 186.** Using the given data, calculate the following: (a) revenue deficit, (b) fiscal deficit and (c) primary deficit.

		(₹ arab)
(i)	Tax Revenue	47
(ii)	Capital Receipts	34
(iii)	Non-tax Revenue	10
(iv)	Borrowings	32
(v)	Revenue Expenditure	80
(vi)	Interest Payments	20

Ans :

OD 2000

- (i) Revenue Deficit
 $= \text{Revenue Expenditure} - \text{Revenue Receipts}$
 $= \text{Revenue Expenditure} - \text{Tax Revenue} - \text{Non-tax Revenue}$
 $= 80 - 47 - 10 = ₹23 \text{ arab}$
- (ii) Fiscal Deficit
 $= \text{Revenue Expenditure} - \text{Revenue Receipts} + \text{Capital Expenditure} - \text{Capital Receipts}$
 Net of Borrowings
 $= \text{Revenue Expenditure} - \text{Tax Revenue} - \text{Non-tax Revenue} - (\text{Capital Receipts} - \text{Borrowings})$
 $= 80 - 47 - 10 - (34 - 32)$
 $= 112 - 91 = ₹21 \text{ arab}$
- (iii) Primary Deficit
 $= \text{Fiscal Deficit} - \text{Interest payments}$
 $= 21 - 20 = ₹1 \text{ arab}$

- 187.** From the following data about a government budget, find out : (a) revenue deficit, (b) fiscal deficit and (c) primary deficit.

		(₹ arab)
(i)	Plan capital expenditure	120
(ii)	Revenue expenditure	100
(iii)	Non-plan capital expenditure	80
(iv)	Revenue receipts	70
(v)	Capital receipts net of borrowing	140
(iv)	Interest payments	30

Ans :

FOREIGN 2001

- (i) Revenue Deficit
 $= \text{Revenue expenditure} - \text{Revenue receipts}$
 $= 100 - 70 = ₹30 \text{ arab}$

- (ii) Fiscal Deficit
 $= \text{Plan capital expenditure} + \text{Revenue expenditure} + \text{Non-plan capital expenditure} - \text{Revenue receipts} - \text{Capital receipts net of borrowings}$
 $= 120 + 100 + 80 - 70 - 140$
 $= 300 - 210 = ₹90 \text{ arab}$
- (iii) Primary Deficit
 $= \text{Fiscal Deficit} - \text{Interest payments}$
 $= 90 - 30 = ₹60$

- 188.** Determine the total borrowing by the government if interest is estimated to be ₹20 crore. Which is 25% of primary deficit.

Ans :

COMP 2004

Interest = 25% of primary deficit

$$20 = \frac{25}{100} \times \text{Primary Deficit}$$

$$\text{Primary Deficit} = 20 \times \frac{100}{25} = ₹80 \text{ crore}$$

Again,

Primary Deficit = Fiscal deficit - Interest payment

$$80 = \text{Fiscal deficit} - 20$$

$$\text{Fiscal deficit} = 80 + 20 = ₹100 \text{ crore}$$

Here, Fiscal deficit = Borrowings = ₹100 crore

CASE BASED QUESTION

- 189.** The government budget is a comprehensive statement of the estimated receipts and expenditures for a fiscal year, running from 1st April to 31st March. It is divided into the Revenue Budget and the Capital Budget. Revenue receipts include tax revenue and non-tax revenue, which do not create liabilities or reduce assets. Tax revenue comprises direct taxes, such as income tax and corporation tax and indirect taxes, such as customs duty and sales tax. Capital receipts, on the other hand, either create liabilities or reduce financial assets. Examples include loans from the public, borrowings from the Reserve Bank of India and recovery of loans given to states. While revenue expenditure refers to recurring expenses for the routine functioning of the government, capital expenditure focuses on creating assets or reducing liabilities, such as infrastructure development and repayment of loans.

- 169.** Distinguish between Primary deficit and Revenue deficit.

Ans :

OD 2011

Difference between Primary deficit and Revenue deficit

Basis	Primary Deficit	Revenue Deficit
Meaning	It shows the difference between fiscal deficit and interest payment.	It shows the excess of total expenditure over total revenue excluding borrowings.
Indicator	It indicates the total borrowing requirements of the government excluding interest.	It indicates the total borrowing requirements of the government including interest.
Formula	Primary deficit = Fiscal deficit – Interest payment	Fiscal deficit = Total expenditure – Total Receipts excluding borrowings

- 170.** Explain the role the government can play through the budget in influencing allocation of resources.

Ans :

FOREIGN 2014

The government budget plays a vital role in allocating resources to achieve socio-economic objectives. Resources are directed toward various projects and activities through budgetary policy. The government encourages investment by offering tax concessions and subsidies to producers. It also discourages harmful goods like cigarettes and liquor through heavy taxation while promoting beneficial goods like khadi with subsidies. When private enterprises avoid producing essential goods due to low profitability, the government steps in to produce them directly. Additionally, the budget is used to increase investments, reduce income inequalities by taxing the wealthy and enhance healthcare and education for the underprivileged.

- 171.** Explain how taxes and subsidies can be used to influence allocation of resources.

or

Explain how the allocation of resources can be influenced in the government budget through

taxes, expenditure and subsidies.

Ans :

SQP 2018

Through budgetary measures like taxes and subsidies, the government seeks to influence economic activities and achieve efficient resource allocation. In market-driven economies, resources are primarily allocated based on demand and supply, often prioritizing profit over social welfare. The government intervenes through its taxation policies to strike a balance between economic welfare and social welfare. For instance, it discourages the production of harmful goods like cigarettes and liquor by imposing high taxes. Conversely, tax concessions and subsidies are provided to boost the production of essential goods such as food grains and kerosene, as well as to promote productive activities in underdeveloped regions.

- 172.** The Government decides to give budgetary incentives to investors for making investments in backward regions. Explain these possible incentives and the reasons for the same.

Ans :

COMP 2020

The government designs the budget to achieve specific economic and social objectives, ensuring balanced regional development and fostering economic growth. By reallocating resources, it prioritizes socially productive sectors where private sector participation is limited, such as public sanitation and rural electrification. To stimulate investment in backward regions, the government offers budgetary incentives, including tax concessions and subsidies. These measures encourage private enterprises to undertake activities that require significant investment or face inadequate infrastructure. Additionally, the establishment of Special Economic Zones (SEZ) is a crucial step. SEZ offer liberal taxation laws, simplified licensing rules and enhanced infrastructure, attracting investment and supporting balanced regional growth.

- 173.** Explain the distinction between Revenue receipts and Capital receipts in a government budget. Give their components.

Ans :

OD 2018

Revenue receipts & Capital receipts

Basis	Revenue receipts	Capital receipts
-------	------------------	------------------

- (i) Those goods or services which are open to use by all members of society are called as _____ goods.
- (ii) Government tries to reallocate resources:
- Through taxation and subsidies.
 - Through population control.
 - By generating employment opportunities.
 - By reducing income inequality.
- (iii) Excess of government revenue expenditure over revenue receipts leads to
- Revenue deficit
 - Primary deficit
 - Current deficit
 - Fiscal deficit
- (iv) Match the following:

	Column I		Column II
1.	Revenue Expenditure	A.	Disinvestment in public sector undertakings
2.	Capital Receipts	B.	expenditure on collection of taxes
		C.	interest paid on loan taken by the government
		D.	borrowing from general public

- 1-A, B; 2-C, D
- 1-B, C; 2-A, D
- 1-A, C; 2-B, D
- 1-A, D; 2-B, C

Ans :

- Public
- (a) Through taxation and subsidies.
- (a) Revenue deficit
- (b) 1-B, C; 2-A, D

192. Read the para given below and answer the questions that follow:

Finance Minister Nirmala Sitharaman highlighted that despite the challenges posed by the COVID-19 pandemic, the government has remained steadfast in its commitment to reforms aimed at achieving long-term sustainable growth. Addressing the Lok Sabha during the debate on the 2021-22 Budget, she emphasized that the Prime Minister continued to seize opportunities to implement reforms, positioning the Budget as a foundation for India's journey towards self-reliance or Aatmanirbhar

Bharat.

In February 2021, the Finance Minister presented a 34.5 lakh crore Budget for the financial year 2021-22, set against the backdrop of the pandemic. The Budget focused on boosting capital expenditure, enhancing healthcare capacity and developing agricultural infrastructure, all expected to create a multiplier effect on the economy. It also allocated significant resources to railways, roads and defence, with the highest-ever capex growth of 34.4 percent.

She noted that despite the economic impact of the pandemic, the government continued to implement crucial reforms necessary for achieving the country's long-term objectives. Stressing the reform-driven approach of the Budget, she stated that these measures would pave the way for India to emerge as one of the world's leading economies in the coming decades.

- When the fiscal deficit is equal to interest payments, then the primary deficit is _____.
- A _____ primary deficit indicates that interest commitments on earlier loans have forced the government to borrow.
- Identify the correct statement:
 - Fiscal deficit is the difference between planned revenue expenditure and planned revenue receipts.
 - Fiscal deficit is the difference between total planned expenditure and total planned receipts.
 - Primary deficit is the difference between total planned receipts and interest payments.
 - Fiscal deficit is the sum of primary deficit and interest payments.
- What will be the primary deficit in the government budget, if the fiscal deficit is ₹50 crore and interest payment is ₹2 crore?
 - ₹50 cr.
 - ₹48 cr.
 - ₹52 cr.
 - ₹100 cr.

Ans :

- Zero
- Low
- (d) Fiscal deficit is the sum of primary deficit and interest payments.
- (b) ₹48 cr.

- 193.** The para given below and answer the questions that follow:

In 2019-20, the Central Government's fiscal deficit reached 4.6% of GDP, exceeding the target of 3.5%. Fiscal deficit, representing the gap between government earnings and expenditures as a percentage of GDP, rose significantly due to lower-than-expected gross tax revenue. The government earned 20.1 trillion against the revised estimate of 21.63 trillion, leaving a shortfall of over 1.5 trillion. Simultaneously, expenditure cuts were constrained, further worsening the fiscal balance. The financial year 2020-21 faced similar challenges, with economic contraction threatening both central and state governments' tax collections. To mitigate financial pressures, governments froze dearness allowance and dearness relief for employees and pensioners and raised taxes on petrol and diesel, despite collapsing oil prices. Increased government borrowing to cover fiscal deficits has led to higher debt levels, creating upward pressure on interest rates. The Reserve Bank of India has sought to reduce these rates, but this has negatively impacted returns on fixed deposits. Additionally, rising government debt risks further downgrades of India's credit rating by global agencies, potentially affecting systematic investment plans (SIPs), the rupee's value against the US dollar and overall economic stability.

- (i) Disinvestment by government means.
- Selling its fixed capital assets.
 - Selling of its buildings.
 - selling of shares of public enterprises held by it.
 - selling of shares by private investors in public undertakings.
- (ii) Identify the correct pair of statement, from the statements given in Columns I and II:

	Column I		Column II
1.	Direct Tax	A.	Corporation tax
		B.	impact and incidence of tax is on different persons.
2.	Indirect Tax	C.	profits and dividend.
		D.	its burden cannot be shifted.

- A, B, C, D
- A, D, B, C
- C, D, A, B
- A, C, B, D

- (iii) Government expenditure on Mid-Day Meal scheme running in Government (state-run) schools is a type of _____ expenditure in the government budget.

- (iv) Match the following:

	Column I		Column II
1.	Fiscal deficit	A.	implies an increase in government spending resulting in an increase in aggregate demand.
2.	Primary deficit	B.	signifies total borrowing requirements of the government.
3.	Budgetary deficit	C.	signifies that the government is living beyond its means even to conduct its day to day operations.
4.	Revenue deficit	D.	signifies borrowing requirements of the government exclusive of interest payments.

- B, D, A, C
- D, C, B, A
- A, B, D, C
- B, D, C, A

Ans :

- (a) Selling its fixed capital assets.
- (b) A, D, B, C
- Revenue
- (c) A, B, D, C

- 194.** Read the para given below and answer the questions that follow:

The Union Budget, presented by India's Finance Minister, is divided into the Capital Budget and Revenue Budget. The Capital Budget is further categorized into capital receipts and capital expenditure.

Capital receipts refer to cash inflows that either create liabilities or reduce financial assets. They can be classified into debt and non-debt receipts. Loans from the general public, foreign governments and the Reserve Bank of India (RBI) constitute a major portion of capital receipts. Recovery of loans extended by the central government to states and other entities is also included in this category. In the government's balance sheet, capital receipts are listed under the liabilities section and are generally non-recurring in nature. Capital receipts are tax-free unless specific provisions apply. Non-debt receipts, which do not impose future repayment obligations, account for approximately 75% of the government's total budget receipts. Examples include the recovery of loans, disinvestment proceeds and the issuance of bonus shares.

Debt receipts, on the other hand, involve borrowing and must be repaid by the government. They finance about 25% of government expenditure. These receipts include market loans, external borrowings and the issuance of special securities to public-sector banks. Reducing reliance on debt receipts can significantly improve the economy's financial health. Most of the government's capital receipts are debt-based, indicating the importance of managing these liabilities for fiscal stability.

- (i) Following is not a characteristic of capital receipts:
- They are irregular and non recurring.
 - They create a future obligation to return the amount.
 - They decrease government's liabilities.
 - They lead to reduction in assets of the government.
- (ii) Following is not an implication of fiscal deficit:
- A vicious circle of borrowings is created.
 - Leads to deflationary pressure.
 - Increases foreign dependence.
 - Creates economic burden for future generations.

- (iii) Revenue expenditure refers to the expenditure which neither _____ (creates/reduces) assets nor _____ (creates/reduces) liabilities.

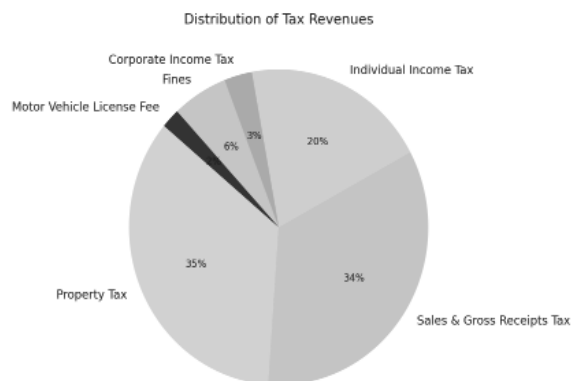
- (iv) Which of the following statements is true?
- Loans from IMF is a revenue receipt.
 - Higher revenue deficit necessarily leads to higher fiscal deficit.
 - Borrowings by government represent a situation of fiscal deficit.
 - Revenue deficit is the excess of capital receipts over the revenue receipts

Ans :

- (ii) (c) They are irregular and non recurring.
 (ii) (b) Leads to deflationary pressure.
 (iii) Creates, reduces
 (iv) (c) Borrowings by government represent a situation of fiscal deficit.

- 195.** Study the given picture carefully:

Sources of State and Local Government tax revenues for a financial year



Answer the following questions based on common knowledge and picture:

- (i) Categories the given items in the picture into tax/ non-tax receipts.
- (ii) "Government has started spending more on providing free services like education and health to the poor."
 In the light of above statement, explain how the government can use the budgetary policy in reducing 'inequalities of income'.

Ans :

- (i)

1.7 Determination of Equilibrium Exchange Rate

The equilibrium exchange rate is determined at a point where demand and supply of foreign exchange are equal.

2. DEPRECIATION OF DOMESTIC CURRENCY

It means fall in the value of domestic currency in terms of foreign currency. For example, from 1\$ = ₹70 to 1\$ = ₹80. It occurs due to:

- (i) Increase in demand for foreign currency;
- (ii) Decrease in supply of foreign currency

3. DEVALUATION OF DOMESTIC CURRENCY

It occurs when the price of domestic currency is decreased by the official action (Government/Central Bank) under the fixed exchange rate system.

4. APPRECIATION OF DOMESTIC CURRENCY

It means a rise in the price of domestic currency in terms of foreign currency (fall in exchange rate). For example, from 1\$ = ₹80 to 1\$ = ₹70. It occurs due to :

- (i) Fall in demand for foreign currency.
- (ii) Increase in supply of foreign currency.

5. REVALUATION

It refers to increase in the price of domestic currency by the government and happens under fixed exchange rate system.

6. BALANCE OF PAYMENTS

It is a systematic record of all economic transactions between residents of a country and the residents of foreign countries during a given period of time. It includes both visible and invisible items, unilateral and capital transfers.

6.1 Balance of Trade (BOT)

It is the difference between exports and imports of goods of a country during the period of one year.

6.2 Economic Transactions in BOP

- (i) Export and import of goods (visible items of trade).
- (ii) Invisible Items. It includes factor as well as non-factor services like shipping, banking, etc.
- (iii) Unilateral transfers
- (iv) Capital transfers related to capital receipts and capital payments.

6.3 Components of BOP

The Balance of Payments consists of various accounts that record all economic transactions between residents of a country and the rest of the world.

1. **Current Account** : It records the following items:
 - (a) **Visible items of trade** : The balance of exports and imports of goods is called balance of trade.
 - (b) **Invisible items** : The balance accruing on account of export and import of services is called balance of invisible trade.
 - (c) **Unilateral transfers** : The net value of balances of trade, of invisible trade and of unilateral transfers is the balance on current account.
2. **Capital Account** : It is that account of BOP which records all such transactions between the residents of a country and rest of the world which cause a change in the asset or liability of the country. It records the following items:
 - (a) **Direct investment** : It means purchasing an asset in another country and acquiring control of it.
 - (b) **Portfolio investment** : It is the acquisition of asset like purchase of shares which does not give control over the asset.
 - (c) **Loans** : It includes borrowings by government and private sector.
 - (d) **Banking capital transactions** : It refers to external financial assets and liabilities of commercial and cooperative banks.
3. Other items in the balance of payment :

Official reserve transactions : All transactions except those in this category may be termed as autonomous transactions.

6.4 Debit Items (Negative Sign)

Debit items represent transactions that lead to payments made to foreign entities. Examples include imports of goods and services, repayment of foreign loans and remittances sent abroad. These transactions reduce the country's foreign exchange reserves.

6.5 Credit Items (Positive Sign)

Credit items reflect transactions that result in receipts from foreign entities. Examples include exports of goods and services, foreign investments and remittances received from abroad. These transactions increase the country's foreign exchange reserves.

CHAPTER 5

FOREIGN EXCHANGE MARKET AND BALANCE OF PAYMENTS

SUMMARY

1. FOREIGN EXCHANGE

Foreign exchange refers to all currencies other than the domestic currency of a country. It is essential for international trade, investment and tourism. Examples include the US Dollar, Euro and Japanese Yen. It facilitates global transactions and cross-border financial activities.

1.1 Foreign Exchange Rate

The foreign exchange rate is the price at which one currency is exchanged for another. It reflects the value of one currency in terms of another and varies based on market factors like demand and supply. For example, 1 USD = 80 INR indicates the exchange value of a dollar in rupees.

1.2 Foreign Exchange Market

The foreign exchange market is a global platform where national currencies are traded. It operates continuously and involves participants like central banks, commercial banks and traders. The market helps determine exchange rates and facilitates international transactions.

1.3 Types of Exchange Rate Systems

The exchange rate system defines how the value of one currency is determined relative to another in the global market.

- (i) Fixed Exchange Rate system : It refers to a system in which exchange rate for a currency is fixed by the government and not determined by market forces.
- (ii) Flexible Exchange Rate : It is the rate which is determined by forces of demand and supply in the foreign exchange market.
- (iii) Managed Floating Rate : It is the flexible exchange rate which can be influenced by the intervention of the central Bank in the foreign exchange market. Under this system,

the Central Bank enters the foreign exchange market to buy/sell foreign currency in order to control fluctuations in the market.

1.4 Sources of Demand for Foreign Exchange

The demand for foreign exchange arises due to various international economic activities and transactions. Some demands of foreign exchange are as follows :

- (i) Payment of loans and interest to international organizations.
- (ii) Gifts and grants to rest of the world.
- (iii) Foreign investment across the world.
- (iv) Foreign trade, i.e., imports.
- (v) Foreign exchange trade for speculation.
- (vi) Foreign tourism.

1.5 Sources of the Supply of Foreign Exchange

The supply of foreign exchange is driven by various international transactions and inflows into the domestic economy. Sources of the supply of foreign exchange are as follows :

- (i) Exports of goods and services from domestic country.
- (ii) Foreign investment : (a) Foreign direct investment (FDI); (b) Portfolio
- (iii) Foreign tourism from abroad.
- (iv) Purchases by non-residents in the domestic country.
- (v) Remittances from abroad.

1.6 Demand Curve of Foreign Exchange

It slopes downwards from left to right showing inverse relationship between exchange rate and demand for foreign exchange.

Supply curve of Foreign Exchange

The supply curve slopes upwards to the right establishing a direct relation between price of foreign currency (exchange rate) and the supply of that foreign currency.

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A fixed exchange rate is determined by a country's government or central bank, keeping the currency value stable. Unlike flexible rates, it does not change based on market fluctuations, ensuring predictability in trade and investments.

45. Which key factor contributes to the depreciation of domestic currency value?

- (a) Growth in exports to foreign nations.
- (b) Rising demand for foreign currency in the market.
- (c) Reduction in domestic inflation rates.
- (d) Increase in remittances from abroad.

Ans :

DELHI 2004

(b) Rising demand for foreign currency in the market.

Depreciation occurs when foreign currency demand surpasses supply, reducing the value of domestic currency. This often happens due to increased imports, foreign loan payments, or speculative trade in foreign exchange markets.

46. What does the downward slope of the foreign exchange demand curve signify?

- (a) Higher prices increase demand.
- (b) Lower prices increase demand.
- (c) Demand remains constant regardless of price.
- (d) There is no relation between price and demand.

Ans :

OD 2007

(b) Lower prices increase demand.

C The demand curve slopes downward, indicating an inverse relationship between the exchange rate and demand for foreign currency. When the exchange rate decreases, foreign goods and services become cheaper, increasing demand.

47. What does foreign exchange mean in the context of international financial systems?

- (a) Currency used for domestic transactions.
- (b) Currencies other than the domestic one.
- (c) The value of gold and reserves in a country.
- (d) Rules governing international trade policies.

Ans :

FOREIGN 2008

(b) Currencies other than the domestic one.

Foreign exchange refers to currencies used in international transactions, differing from domestic currency. These currencies facilitate cross-border trade, investment and economic cooperation globally.

48. What happens when the domestic currency appreciates in terms of exchange rate?

- (a) The exchange rate rises for domestic currency.
- (b) Domestic currency becomes more valuable.
- (c) Exports become cheaper internationally.
- (d) Demand for foreign currency increases.

Ans :

SQP 2010

(b) Domestic currency becomes more valuable.

Appreciation increases the value of domestic currency relative to foreign currency, making imports cheaper but potentially reducing export competitiveness. This is common when foreign currency supply increases or demand decreases.

49. What is the primary purpose of the capital account in the balance of payments?

- (a) To record trade of goods and services.
- (b) To track financial flows affecting assets and liabilities.
- (c) To regulate international trade policies.
- (d) To monitor tourism and remittance activities.

Ans :

COMP 2003

(b) To track financial flows affecting assets and liabilities.

The capital account tracks changes in ownership of assets between nations, including investments and loans. It complements the current account by focusing on financial transactions rather than trade of goods and services.

50. What does disequilibrium in the balance of payments indicate for an economy?

- (a) Equal exports and imports of goods.
- (b) A surplus or deficit in economic transactions.
- (c) Rising capital investments abroad.
- (d) Increased stability in foreign reserves.

Ans :

DELHI 2005

(b) A surplus or deficit in economic transactions. Disequilibrium arises when a country's receipts from foreign transactions do not match its payments. This imbalance can result from economic, political, or social factors and may affect the nation's financial stability.

51. What role do unilateral transfers play in the current account of BOP ?

- (a) They record one-sided payments like remittances or grants.
- (b) They balance the trade deficit in visible goods.
- (c) They include bilateral trade agreements.
- (d) They are part of banking capital transactions.

6.6 Autonomous Items

It refers to those international economic transactions that take place due to some economic motive like profit maximization. These items are called “above the line items”.

The balance of payments is in deficit if the autonomous receipts are less than autonomous payments.

6.7 Accommodating Items

These refer to those transactions that are done to cover the deficit or surplus in BOP. They are called “below the line items”.

6.8 Disequilibrium in Balance of Payments (BOP)

Disequilibrium could be in the form of a surplus or deficit. Following factors are responsible for it:

- (i) Economic factors:
 - (a) Large Scale developmental expenditure leading to large imports.
 - (b) Increase in imports due to domestic inflation.
 - (c) Cyclical fluctuations like recession or depression.
- (ii) Political factors : Political instability may restrict foreign investment.
- (iii) Social factors : Change in consumer tastes and preferences may affect imports and exports

MULTIPLE CHOICE QUESTION

1. Under the _____ Exchange Rate System, the Central Bank can control the rise/fall of foreign exchange rate in a range bound manners. (Fill up the blank with correct alternative.)

- (a) Fixed
- (b) Flexible
- (c) Managed floating
- (d) Gold standard

Ans :

OD 2024

- (c) Managed floating

2. The measurement of Balance of Payments deficit is based on _____ transactions. (Fill up the blank with correct alternative.)

- (a) Autonomous
- (b) Accommodating
- (c) Current account
- (d) Capital account

Ans :

OD 2024

- (a) Autonomous

3. If in an economy the Balance of Trade is showing a deficit of ₹200 crore and the value of import is ₹900 crore, then the value of exports would be ₹ _____ crore. (Fill in the blank with correct alternative)

- (a) 200
- (b) 1,100
- (c) 700
- (d) 900

Ans :

OD 2024

- (c) 700

4. A company located in India receives a loan from a company located abroad. How is this transaction recorded in India's balance of payments account? (Choose the correct alternative)

- (a) Credit side of current account
- (b) Debit side of current account
- (c) Credit side of capital account
- (d) Debit side of capital account

Ans :

SQP 2023

- (c) Credit side of capital account

If the value of a rupee in terms of U.S. dollar moves from ₹75 to ₹70 to a dollar. It will be called _____ of Indian currency.

- (a) Depreciation
- (b) Appreciation
- (c) Devaluation
- (d) None of these

Ans :

SQP 2005

- (b) Appreciation

6. Which one of the following is not included in current account of BOP.

- (a) Portfolio investments
- (b) Exports of goods
- (c) Unilateral transfers
- (d) Imports of good

Ans :

COMP 2009

- (a) Portfolio investments

7. Which of the following is not included in capital account of BOP.

- (a) Portfolio investments
- (b) Banking capital transactions
- (c) Unilateral transfers
- (d) Direct investments

Ans :

DELHI 2002

(c) Unilateral transfers

8. The balance of trade shows a deficit of ₹500 crore, the value of exports is ₹1000 crore. What is the value of imports?

- (a) ₹1,500 crore
(b) ₹500 crore
(c) ₹5,000 crore
(d) ₹1,000 crore

Ans :

OD 2011

(a) ₹1,500 crore

9. An Indian company located in India invests in a company located abroad. This transaction is entered in India's balance of payment account on:

- (a) Credit side of current account
(b) Debit side of capital account
(c) Credit side of capital account
(d) Credit side of capital account

Ans :

FOREIGN 2014

(b) Debit side of capital account

10. Rise in the price of foreign currency implies _____ in the value of domestic currency.

- (a) Revaluation
(b) Appreciation
(c) Depreciation
(d) None of the above

Ans :

SQP 2018

(c) Depreciation

11. Current account records transactions relating to:

- (a) Export and import of goods
(b) Current transfers
(c) Non factor and factor income
(d) All of the above

Ans :

COMP 2020

(d) All of the above

12. Which of the following is not a function of foreign exchange market?

- (a) Transfer function
(b) Allocative function
(c) Hedging function
(d) Credit function

Ans :

DELHI 2017

(c) Hedging function

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13. Which of the following transactions determine balance of trade.

- (a) Export and import of goods
(b) Export and import of services
(c) All exports and imports of a country
(d) Export and import of capital

Ans :

OD 2013

(a) Export and import of goods

14. _____ Refers to the exchange rate at which demand for and supply of foreign currency are equal.

- (a) Equilibrium exchange rate
(b) Fixed exchange rate
(c) Flexible exchange rate
(d) Managed floating exchange rate

Ans :

FOREIGN 2015

(a) Equilibrium exchange rate

15. Final balance of payments of a country is:

- (a) Always deficit
(b) Always balanced
(c) Always surplus
(d) Fluctuates

Ans :

SQP 2012

(b) Always balanced

16. Export of goods is called trade in:

- (a) Visible items
(b) Invisible items
(c) Basic items
(d) Real items

Ans :

COMP 2016

(a) Visible items

17. Visible imports include:

- (a) Computer software
(b) Machinery
(c) Remittance
(d) All of the above

Ans :

DELHI 2019

(b) Machinery

18. If balance of trade is (–) ₹1000 crore and value of exports is ₹500 crore then the value of imports will be:

- (a) ₹500 crore
(b) ₹5,000 crore
(c) ₹1,500 crore
(d) ₹2,000 crore

Ans :

OD 2022

(c) ₹1,500 crore

19. _____ Refers to purchase of assets abroad along with acquiring the power to control them

(a) Portfolio investment
(b) Autonomous investment
(c) Induced investment
(d) Direct investment

Ans :

FOREIGN 2021

(d) Direct investment

20. Other things remaining unchanged, when in a country the price of foreign currency rises, national income is :

(a) Likely to rise
(b) Likely to fall
(c) Likely to rise
(d) Not affected and fall both

Ans :

COMP 2000

(a) Likely to rise

21. Foreign exchange transactions dependent on other foreign exchange transactions are called :

(a) Current account transactions
(b) Capital account transactions
(c) Autonomous transactions
(d) Accommodating transactions

Ans :

DELHI 2001

(d) Accommodating transactions

22. Foreign exchange transactions which are independent of other transactions in the Balance of Payments Account are called :

(a) Current transactions
(b) Capital transactions
(c) Autonomous transactions
(d) Accommodating transactions

Ans :

OD 2004

(c) Autonomous transactions

23. Other things remaining the same, when in a country the market price of foreign currency falls, national income is likely :

(a) To rise
(b) To fall
(c) To rise or to fall
(d) To remain unaffected

Ans :

DELHI 2018

(b) To fall

24. As per the Reserve Bank of India (RBI) press report, dated 22 nd June, 2022:

“Net Foreign Portfolio Investment (FPI) recorded an outflow of US\$ 15.2 billion mainly from the equity market.”

The above transaction will be recorded in the _____ account on _____ side of Balance of Payments Account of India.

(a) Current, credit
(b) Current, debit
(c) Capital, credit
(d) Capital, debit

Ans :

DELHI 2023

(d) Capital, debit

25. Assuming that, the following data is given for an imaginary economy: (2023 Series : HFG1E/2)

Items	2020 (₹ in Cr.)	2021 (₹ in Cr.)
Exports of visibles	1,000	1,100
Imports of visibles	800	850

The Balance of Trade from 2020 to 2021 _____ by ₹ _____ crore.

(a) Increased, 200
(b) Decreased, 200
(c) Increased, 50
(d) Decreased, 50

Ans :

OD 2007

(c) Increased, 50

26. Suppose, the price of one UK Pound (£) has increased from ₹70 to ₹80, owing to market forces. This means that value of Indian Currency (₹) has _____.

(a) Appreciated
(b) Depreciated
(c) Revalued
(d) Devalued

Ans :

MAIN 2015

(b) Depreciated

27. Suppose, Country X has more inflation than Country Y. Which of the following is most likely situation to happen in such a case, assuming other factors being constant?

(a) A surplus trade balance in Country X
(b) A deficit trade balance for Country X
(c) A rise in exports from Country X to Country Y
(d) A deficit trade balance for Country X

Ans :

DELHI 2023

(b) A deficit trade balance for Country X

28. _____ Is the difference between value of export and import of services; transfer payments in a given period of time.

- (a) Balance of trade
- (b) Net Invisibles (Services)
- (c) Trade surplus
- (d) Current account of BOP

Ans :

COMP 2017

(b) Net Invisibles (Services)

29. Which of the following items will be entered on the credit side of current account in Balance of Payment of a country?

- (a) Borrowings from abroad
- (b) Import of Machinery
- (c) Export of tea
- (d) Foreign Direct Investment

Ans :

OD 2021

(c) Export of tea

30. Price of one currency in relation to another currency, determined by the free market forces, is known as _____.

- (a) Equilibrium Price
- (b) Fixed Exchange Rate
- (c) Foreign Exchange Rate
- (d) Flexible Exchange Rate

Ans :

COMP 2012

(d) Flexible Exchange Rate

31. In 1991, _____ was the immediate impact of devaluation of Indian Rupee.

- (a) Increase in inflow of foreign exchange
- (b) Decrease in inflow of foreign exchange
- (c) Increase in outflow of foreign exchange
- (d) Fall in foreign exchange reserve

Ans :

OD 2021

(a) Increase in inflow of foreign exchange

32. In context of current account, identify the incorrect statement from the following:

- (a) Export of goods and services are recorded as credit items.
- (b) Imports of goods and services are recorded as debit items.
- (c) All transfer payments are recorded as debit items.
- (d) All transfer receipts are recorded as debit items.

Ans :

OD 2021

(d) All transfer receipts are recorded as debit items.

33. Identify the false statement in context of India's foreign trade.

- (a) Exporter of raw material.
- (b) Surplus in foreign trade account.
- (c) Importer of finished goods
- (d) Import of gems and pearls from Britain.

Ans :

MAIN 2016

(a) Exporter of raw material.

34. Which of the following statements is incorrect?

- (a) Balance of Payment (BOP) is a flow concept.
- (b) Balance of Trade includes export and import of goods only.
- (c) Charity to foreign countries is recorded in Capital Account of BOP.
- (d) Balance of Payment is broader concept than balance of trade.

Ans :

FOREIGN 2008

(c) Charity to foreign countries is recorded in Capital Account of BOP.

35. Which of the following items is included in capital account of Balance of Payments of a country?

- (a) Interest and rent received from assets abroad
- (b) Income from banking services
- (c) Remittances from abroad
- (d) Foreign Direct Investment

Ans :

OD 2021

(d) Foreign Direct Investment

36. From the following, identify the correct reasons that may affect the supply of foreign exchange in an economy:

- I. Purchase of land in England by an Indian.
- II. Foreign tourists visiting Taj Mahal.
- III. Donation of \$ 500 million from Microsoft.
- IV. Indian students going to Australia for studies

Alternatives:

- (a) I and II
- (b) II and IV
- (c) II and III
- (d) I and IV

Ans :

SQP 2010

(c) II and III

- 37.** Identify, which of the following is not a source of demand for foreign exchange for Indian economy?
- Import of goods and services
 - Remittances by foreigners living in India to their families abroad
 - Indian tourists visiting foreign countries
 - Loans from Rest of the World (ROW)

Ans :

COMP 2003

- (d) Loans from Rest of the World (ROW)

- 38.** The exchange rate in the foreign exchange market is determined by the _____, ensuring a balance between currency supply and demand.

- Inflation rates
- Supply and demand
- Government policies
- Trade agreements

Ans :

DELHI 2005

- (b) Supply and demand

The price of foreign currency is determined by its supply and demand, ensuring equilibrium in the foreign exchange market.

- 39.** Depreciation of domestic currency occurs when there is a significant _____ in the demand for foreign currency in a flexible exchange rate system.

- A decrease
- No change
- An increase
- Government intervention

Ans :

OD 2009

- (c) An increase

Depreciation happens when demand for foreign currency exceeds supply, reducing the domestic currency's value relative to foreign currencies.

- 40.** Balance of Trade (BOT) measures the net difference between a country's exports and imports of _____ during a specific period.

- Visible goods
- Banking services
- Capital investments
- Foreign aid

Ans :

FOREIGN 2002

- (a) Visible goods

BOT focuses on tangible goods traded internationally, excluding services or capital transactions, which are part of the current account.

- 41.** A managed floating exchange rate system allows currency regulation through _____ intervention to stabilize the foreign exchange market.

- Central bank
- Private sector
- International banks
- Market forces only

Ans :

SQP 2011

- (a) Central bank

In a managed floating system, the central bank intervenes to stabilize the currency by buying or selling foreign currency during fluctuations.

- 42.** The supply of foreign exchange for a country increases significantly when _____ are sent back home by citizens living abroad.

- Exports
- Remittances
- Imports
- Inflation rates

Ans :

COMP 2014

- (b) Remittances

Remittances sent by citizens working abroad add to the foreign exchange reserves, strengthening the supply of foreign currency.

- 43.** What is the primary role of the foreign exchange market in global trade and finance?

- Facilitating domestic trade transactions.
- Enabling the exchange of national currencies.
- Setting fiscal policies for countries.
- Regulating international exports and imports.

Ans :

SQP 2000

(b) Enabling the exchange of national currencies. The foreign exchange market is essential for exchanging currencies needed for international trade and investments. It allows countries and businesses to conduct financial transactions. Without it, cross-border trade and economic cooperation would be impossible.

- 44.** How is the fixed exchange rate system controlled and implemented in an economy?

- By market forces of demand and supply.
- By government or central bank policies.
- By international financial institutions.
- By decisions of private investors.

Ans :

COMP 2001

- (b) By government or central bank policies.

Tax Receipts	Non-Tax Receipts
Individual Income tax Property Tax	Fines Motor Vehicle License Fee
Sales & Gross Receipts Corporate Income Tax	

- (ii) Government budget can be an effective instrument of changing the pattern of distribution of income with a view to help weaker section of society and promoting social justice. It does so by taxing the rich and providing subsidies to the low income group people. It also tries to incur public expenditure on such schemes which help the poor the most such as providing health care and education.

196. Budgeted 2021-22 → From Where The Rupee Comes ?

S. No.	Items	Amount (Paisa/Rupee)
(i)	Corporation Tax	13
(ii)	Income Tax	14
(iii)	Customs	3
(iv)	Union Excise Duties	8
(v)	Goods and Service Tax	15
(vi)	Non-Tax Revenue	6
(vii)	Non-Debt Capital Receipts	5
(viii)	Borrowing & other liabilities	36

- (i) What is the percentage share of total tax revenue in government's total receipts?
- (a) 50%
(b) 53%
(c) 59%
(d) 45%
- (ii) Identify which of the following is not an example of non-tax revenue?
- I. Fees and fines
II. Income Tax
III. Borrowings
IV. Grants
- (a) Only II
(b) II and III
(c) I, III and IV
(d) I and IV

- (iii) If government borrowing increases, which of the following statements will be incorrect for the current fiscal year?
- (a) Primary deficit will increase.
(b) Fiscal deficit will increase.
(c) Revenue deficit will decrease.
(d) Government burden for future payments will increase.
- (iv) Which among the following is an example of Indirect Tax?
- (a) Income Tax
(b) Corporation Tax
(c) Excise Duties
(d) Gift Tax
- (v) If government borrowing for the fiscal year is ₹35,000 crore and interest payments are ₹5,000 crore then the value of fiscal deficit will be.
- (a) ₹35,000 crore
(b) ₹30,000 crore
(c) ₹40,000 crore
(d) ₹7,000 crore
- (vi) Match the items of Column-I with Column-II and choose the correct pair:

	Column-I		Column-II
A.	Revenue Receipt	(i)	Interest Paid
B.	Capital Receipt	(ii)	Grants received
C.	Revenue Expenditure	(iii)	Profits of PSU
D.	Capital Expenditure	(iv)	Loan repaid

- (a) A-(i)
(b) B-(ii)
(c) C-(iii)
(d) D-(iv)

Ans :

- (ii) (b) $\frac{13 + 14 + 3 + 8 + 15}{100} \times 100 = 53\%$
- (ii) (a) 50%
(iii) (c) I, III and IV
(iv) (c) Revenue deficit will decrease.
(v) (a) ₹35,000 crores
(vi) (d) D-(iv)

Ans :

OD 2009

(a) They record one-sided payments like remittances or grants.

Unilateral transfers include payments that are one-way, such as remittances sent by individuals or grants provided by governments. These transactions do not involve an exchange of goods or services.

52. How is the balance of trade calculated within the current account of BOP ?

- (a) By subtracting imports of services from exports of goods.
- (b) By the difference between exports and imports of goods.
- (c) By adding visible and invisible items of trade.
- (d) By balancing unilateral transfers with services trade.

Ans :

FOREIGN 2002

(b) By the difference between exports and imports of goods.

The balance of trade focuses solely on the net value of goods exported and imported. It forms a major component of the current account but does not include services or other transfers.

53. What does revaluation of domestic currency mean under a fixed exchange rate system?

- (a) Increase in its value by government intervention.
- (b) Decrease in its value by market forces.
- (c) Depreciation due to foreign demand.
- (d) Adjustment in its value by inflation rates.

Ans :

SQP 2011

(a) Increase in its value by government intervention.

Revaluation occurs when a government intentionally increases the value of its currency under a fixed exchange rate system. It reflects the country's economic strength and impacts international trade.

54. What is the main component of the current account in the balance of payments?

- (a) Loans taken by the government.
- (b) Export and import of goods and services.
- (c) Portfolio investments by foreigners.
- (d) Banking capital transactions.

Ans :

COMP 2014

(b) Export and import of goods and services.

The current account focuses on visible trade

(goods) and invisible trade (services), which are key elements of a nation's economic transactions with the rest of the world.

55. What does the supply curve of foreign exchange depict in the market?

- (a) An inverse relationship between price and supply.
- (b) A direct relationship between price and supply.
- (c) No correlation between price and supply.
- (d) A constant supply irrespective of price changes.

Ans :

DELHI 2018

(b) A direct relationship between price and supply. The foreign exchange supply curve slopes upwards, indicating that as the price of foreign currency increases, more of it is supplied to the market.

56. How is the balance of trade different from the balance of payments?

- (a) BOT includes only trade in goods, while BOP includes all economic transactions.
- (b) BOT includes services, while BOP focuses only on goods.
- (c) Both BOT and BOP include unilateral transfers.
- (d) BOT includes all trade, while BOP excludes visible items.

Ans :

OD 2020

(a) BOT includes only trade in goods, while BOP includes all economic transactions.

The balance of trade measures the net export-import value of goods, while the balance of payments includes goods, services, transfers and capital flows.

57. What causes appreciation of domestic currency in terms of foreign exchange?

- (a) Increase in demand for foreign currency.
- (b) Decrease in demand for foreign currency.
- (c) Reduction in exports of goods.
- (d) Decrease in foreign currency supply.

Ans :

FOREIGN 2017

(b) Decrease in demand for foreign currency.

When demand for foreign currency falls, the value of the domestic currency increases, leading to its appreciation in the foreign exchange market.

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- 113.** Explain the impact of this lending on market exchange rate.

Ans :

FOREIGN 2007

When Indian investors lend money abroad, it results in a reduction in the domestic supply of foreign exchange due to the outflow of currency. This decrease in foreign exchange availability triggers an increase in the exchange rate, signifying that the value of the Indian rupee depreciates relative to foreign currencies, impacting the overall balance of payments and trade dynamics adversely.

- 114.** How can Reserve Bank of India help in bringing down the foreign exchange rate which is very high?

Ans :

SQL 2008

The Reserve Bank of India may consider devaluing the Indian rupee to address and reduce the high exchange rate. By intentionally lowering the rupee's value relative to foreign currencies, this measure aims to make Indian exports more competitive globally, stimulate economic growth and bring the exchange rate to a more manageable and favorable level for international trade and economic stability.

- 115.** Differentiate between disequilibrium and deficit in BOP?

Ans :

COMP 2008

Disequilibrium in the Balance of Payments (BOP) occurs when there is either a surplus or a deficit in the account, disrupting the financial equilibrium. Among these, a deficit in the BOP represents one significant form of disequilibrium, indicating that a country's outflows of foreign exchange exceed its inflows. This imbalance can impact the nation's economy, requiring corrective policy measures to restore stability.

- 116.** The balance of trade shows a deficit of ₹600 crore, the value of exports is ₹1,000 crore. What is the value of imports?

Ans :

DELHI 2010

The Balance of Trade (BOT) is calculated as the difference between exports and imports, expressed by the formula : $BOT = Exports - Imports$. In this case, the BOT is negative at -600 crore, with exports amounting to 1,000 crore. Solving for imports : $Imports = Exports - BOT$. Substituting the values, $Imports = 1,000 + 600$, resulting in

total imports of ₹1,600 crore.

- 117.** What is 'current account deficit' in the balance of payments?

Ans :

OD 2003

A current account deficit occurs when the foreign exchange receipts in a country's current account are insufficient to cover its foreign exchange payments. This imbalance signifies that the nation is spending more on imports, services and other outflows than it earns from exports, investments, or remittances, leading to a shortfall in the current account and potential economic challenges.

- 118.** Explain the concept of 'deficit' in the Balance of Payments.

Ans :

FOREIGN 2005

A balance of payments (BOP) deficit arises when autonomous receipts fall short of autonomous payments, creating a financial imbalance. To address this deficit, countries often rely on borrowing from international institutions like the International Monetary Fund (IMF). Such borrowings are classified as accommodating items, ensuring that the BOP is ultimately balanced, maintaining global financial stability and enabling countries to manage their external obligations effectively.

- 119.** Giving reasons state whether the following statements are true or false:

Export and import of machines are recorded in capital account of the balance of payments account.

Ans :

SQL 2009

The statement is incorrect. The export and import of machinery are not recorded in the current account of the Balance of Payments (BOP). Instead, these transactions are included in the capital account as they involve the exchange of physical assets. The current account primarily captures trade in goods and services, income and current transfers.

- 120.** State the effect of the following on the balance of payments situation. Increase in import duty of gold.

Ans :

COMP 2002

Raising the import duty on gold will discourage its import by making it more expensive, leading to a reduction in gold imports. This decrease in

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65. What is the main distinction between depreciation and devaluation of currency?

- (a) Depreciation is voluntary, while devaluation is imposed by the market.
- (b) Depreciation occurs in flexible rates, while devaluation is under fixed rates.
- (c) Depreciation is a government decision, while devaluation is market-driven.
- (d) Both occur only due to changes in export activity.

Ans :

DELHI 2023

(b) Depreciation occurs in flexible rates, while devaluation is under fixed rates.

Depreciation is natural in a flexible exchange rate system, while devaluation is a deliberate action under a fixed system.

66. What does the supply curve of foreign exchange signify in international markets?

- (a) Lower exchange rates increase foreign exchange supply.
- (b) Higher exchange rates increase foreign exchange supply.
- (c) Supply is constant irrespective of exchange rates.
- (d) Supply depends only on government regulations.

Ans :

OD 2000

(b) Higher exchange rates increase foreign exchange supply.

The upward-sloping supply curve shows that as the exchange rate rises, more foreign currency is supplied to the market.

67. How does inflation affect the balance of payments in a country?

- (a) It reduces export costs and encourages imports.
- (b) It increases import costs, leading to trade deficits.
- (c) It balances trade by reducing both imports and exports.
- (d) It has no significant effect on trade balances.

Ans :

FOREIGN 2001

(b) It increases import costs, leading to trade deficits.

Domestic inflation makes local goods expensive and imports more attractive, often resulting in a deficit in the balance of payments.

68. What are invisible items in the current account of the BOP?

- (a) Export and import of physical goods.
- (b) Transactions involving services like banking or shipping.
- (c) Loans and investments between nations.
- (d) Payments for foreign direct investment.

Ans :

SQP 2004

(b) Transactions involving services like banking or shipping.

Invisible items include non-physical services, such as transport, banking, or insurance, which are recorded in the current account.

69. What does “autonomous transactions” in BOP refer to?

- (a) Transactions made to address trade deficits.
- (b) Economic activities motivated by profit maximization.
- (c) Loans and grants from foreign nations.
- (d) Government interventions in the capital market.

Ans :

COMP 2007

(b) Economic activities motivated by profit maximization.

Autonomous transactions are natural economic activities, like trade and investments, that occur due to business or profit motives.

70. What is a key factor causing surplus in the balance of payments?

- (a) Increase in imports of goods and services.
- (b) Decline in foreign investments.
- (c) Higher remittances from abroad.
- (d) Increased domestic inflation rates.

Ans :

DELHI 2008

(c) Higher remittances from abroad.

A rise in remittances adds to foreign exchange reserves, leading to a surplus in the balance of payments.

71. How do official reserve transactions function in the balance of payments?

- (a) They are used to adjust deficits or surpluses in BOP.
- (b) They only include loans taken by the government.
- (c) They monitor bilateral trade agreements.
- (d) They are part of autonomous items.

Ans :

OD 2010

(a) They are used to adjust deficits or surpluses in BOP.

Official reserve transactions involve central banks buying or selling foreign currency to stabilize the BOP.

- 94.** Balance of Trade (BOT) refers to the difference between exports and imports of goods. It is part of the current account in the balance of payments and only includes visible items like physical goods traded internationally.

What does the Balance of Trade include?

- (a) Only visible items like goods.
- (b) All services and goods.
- (c) Loans and investments.
- (d) Banking capital transactions.

Ans :

OD 2020

- (a) Only visible items like goods.

The Balance of Trade focuses on tangible goods traded internationally, excluding services and capital transactions.

- 95.** Managed floating exchange rate is a flexible rate influenced by central bank interventions. The central bank buys or sells foreign currency to stabilize exchange rates and control market fluctuations.

How does a central bank manage the exchange rate?

- (a) By fixing rates permanently.
- (b) By buying or selling foreign currency.
- (c) By relying on market demand alone.
- (d) By increasing inflation rates.

Ans :

FOREIGN 2017

- (b) By buying or selling foreign currency.

The central bank intervenes in a managed floating system to stabilize exchange rates, ensuring minimal market volatility.

- 96.** Autonomous items in the Balance of Payments refer to economic transactions driven by profit motives. These include international trade and foreign investments, which occur independently of any need to balance the BOP.

What are autonomous items in the Balance of Payments?

- (a) Transactions to balance the BOP.
- (b) Government loans to manage deficits.
- (c) Economic activities motivated by profit.
- (d) Banking capital transfers.

Ans :

SQP 2013

- (c) Economic activities motivated by profit.

Autonomous items occur naturally in international trade and investments, independent of balancing the Balance of Payments.

- 97.** The supply of foreign exchange increases when exports rise, foreign tourists visit, or remittances are sent by citizens living abroad. Higher foreign direct investments also boost the supply of foreign exchange.

What contributes to an increase in the supply of foreign exchange?

- (a) Domestic inflation.
- (b) Rise in exports and remittances.
- (c) Higher demand for foreign currency.
- (d) Political instability in the country.

Ans :

COMP 2015

- (b) Rise in exports and remittances.

Exports, remittances and foreign investments increase the supply of foreign exchange, strengthening the foreign reserves of the country.

ONE MARK QUESTIONS

- 98.** What is foreign exchange?

Ans :

COMP 2017

Foreign exchange refers to the currency of other countries, such as US dollars, UK pounds, etc.

- 99.** Define foreign exchange rate.

Ans :

DELHI 2013

Foreign exchange is the value of a foreign currency expressed in terms of the domestic currency, e.g., 1 USD = ₹80.

- 100.** What is 'devaluation'?

Ans :

OD 2015

Devaluation of domestic currency refers to the government's deliberate action to increase the price of foreign currency in terms of domestic currency.

- 101.** What is meant by depreciation of domestic currency?

Ans :

FOREIGN 2012

Currency depreciation is the decline in the value of domestic currency relative to foreign currency.

- 102.** What is a fixed exchange rate?

Ans :

SQP 2016

A fixed exchange rate is one that is set and maintained by the government or central bank.

- (a) Both Assertion and Reason are true and Reason is the correct explanation of Assertion.
- (b) Both Assertion and Reason are true and Reason is not the correct explanation of Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

SQP 2007

- (c) Assertion is true but Reason is false.

79. Assertion : Disequilibrium in BOP is caused by autonomous receipts and autonomous payments.

Reason : Receipts of autonomous transactions are recorded on the credit side of the BOP account.

- (a) Both Assertion and Reason are true and Reason is the correct explanation of Assertion.
- (b) Both Assertion and Reason are true and Reason is not the correct explanation of Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

COMP 2008

- (b) Both Assertion and Reason are true and Reason is not the correct explanation of Assertion.

80. Assertion : Exports of invisibles are recorded on the debit side of the current account of BOP.

Reason : Inflow of foreign exchange is recorded on the credit side.

- (a) Both Assertion and Reason are true and Reason is the correct explanation of Assertion.
- (b) Both Assertion and Reason are true and Reason is not the correct explanation of Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

DELHI 2010

- (d) Assertion is false but Reason is true.

81. Assertion : Import of machinery is recorded in the current account.

Reason : Capital transactions relate to Capital receipts and capital payments.

- (a) Both Assertion and Reason are true and Reason is the correct explanation of Assertion.
- (b) Both Assertion and Reason are true and Reason is not the correct explanation of Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

OD 2003

- (b) Both Assertion and Reason are true and Reason is not the correct explanation of Assertion.

82. Assertion : Unilateral transfers are a part of Current Account.

Reason : Capital account records transactions which cause a change in the assets or liabilities of the Government.

- (a) Both Assertion and Reason are true and Reason is the correct explanation of Assertion.
- (b) Both Assertion and Reason are true and Reason is not the correct explanation of Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

FOREIGN 2005

- (b) Both Assertion and Reason are true and Reason is not the correct explanation of Assertion.

83. Assertion : The Balance of Payments is in surplus, if autonomous receipts are greater than autonomous payments.

Reason : Autonomous transactions are determined by the difference in the Balance of Payments.

- (a) Both Assertion and Reason are true and Reason is the correct explanation of Assertion.
- (b) Both Assertion and Reason are true and Reason is not the correct explanation of Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

SQP 2009

- (c) Assertion is true but Reason is false.

STATEMENT BASED QUESTIONS

84. Statement 1 : Foreign exchange refers to all currencies other than the domestic currency.

Statement 2 : It includes only the currencies used for international trade.

- (a) Both statements are true.
- (b) Both statements are false.
- (c) Statement 1 is true and Statement 2 is false.
- (d) Statement 1 is false and Statement 2 is true.

Ans :

COMP 2002

- (c) Statement 1 is true and Statement 2 is false. Foreign exchange includes all foreign currencies, not just those used for trade, but also for financial and speculative purposes.

58. What is meant by autonomous items in the balance of payments?

- (a) Items driven by profit motives and not for balancing the BOP.
- (b) Transactions made to adjust BOP deficits.
- (c) Items regulated by international banks.
- (d) Government loans for foreign trade.

Ans :

SQP 2013

(a) Items driven by profit motives and not for balancing the BOP.

Autonomous items include economic transactions, such as trade or investments, conducted for profit rather than to address BOP imbalances.

59. What does the term “accommodating items” refer to in the BOP?

- (a) Transactions for profit-making in international trade.
- (b) Adjustments made to balance deficits or surpluses in BOP.
- (c) Government policies to regulate exchange rates.
- (d) Trade agreements between nations.

Ans :

COMP 2015

(b) Adjustments made to balance deficits or surpluses in BOP.

Accommodating items are economic transactions conducted specifically to address disequilibrium in the BOP, often carried out by governments or central banks.

60. Which factor can cause disequilibrium in the balance of payments?

- (a) Stable international trade policies.
- (b) Large-scale development leading to higher imports.
- (c) Decrease in domestic inflation rates.
- (d) Increase in remittances from abroad.

Ans :

DELHI 2012

(b) Large-scale development leading to higher imports.

Increased development expenditures often result in higher imports, contributing to a trade imbalance and disequilibrium in the BOP.

61. How does devaluation of domestic currency impact trade under a fixed exchange rate system?

- (a) It reduces export competitiveness.
- (b) It increases export competitiveness.
- (c) It raises the domestic currency value.
- (d) It leads to increased imports.

Ans :

OD 2016

(b) It increases export competitiveness.

Devaluation reduces the price of domestic goods in foreign markets, making them more attractive to buyers and boosting exports.

62. What is the key purpose of the capital account in the BOP framework?

- (a) Monitoring trade of visible goods.
- (b) Tracking capital inflows and outflows.
- (c) Balancing unilateral transfers.
- (d) Regulating domestic fiscal policies.

Ans :

FOREIGN 2019

(b) Tracking capital inflows and outflows.

The capital account records financial transactions, such as foreign investments, loans and asset ownership changes between countries.

63. What is the role of managed floating exchange rate in currency stability?

- (a) Allows currency value to be fixed by the government.
- (b) Enables central banks to intervene in currency fluctuations.
- (c) Fully relies on market forces of demand and supply.
- (d) Completely eliminates foreign exchange volatility.

Ans :

SQP 2022

(b) Enables central banks to intervene in currency fluctuations.

Under a managed floating system, central banks step in to stabilize the currency by buying or selling foreign currency to control excessive volatility.

64. What happens when the domestic currency depreciates in the foreign exchange market?

- (a) The value of domestic currency rises.
- (b) Domestic goods become cheaper for foreign buyers.
- (c) The demand for domestic exports decreases.
- (d) Foreign currency demand reduces.

Ans :

COMP 2021

(b) Domestic goods become cheaper for foreign buyers.

Depreciation lowers the price of domestic goods in the global market, boosting exports but making imports more expensive.

90. Which category contributes the second highest amount to the Balance of Payments?

- (a) Autonomous Transactions
- (b) Accommodating Items
- (c) Invisible Trade
- (d) Visible Trade

Ans :

DELHI 2016

- (a) Autonomous Transactions

According to the graph, visible trade contributes the highest (80 billion dollars), followed by autonomous transactions at 60 billion dollars, making it the second-highest contributor.

DIRECTION : Read the following line graph and answer the following question :



91. In which year did the supply of foreign exchange experience the highest value?

- (a) 2018
- (b) 2019
- (c) 2021
- (d) 2022

Ans :

OD 2019

- (d) 2022

The line graph indicates that the supply of foreign exchange peaked in 2022 at 60 billion dollars, showing a steady increase over the years.

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DIRECTION : Read the following graph carefully and answer the following question :



92. In which year did the foreign exchange demand experience a decline compared to the previous year?

- (a) 2017
- (b) 2018
- (c) 2020
- (d) 2021

Ans :

FOREIGN 2022

- (c) 2020

The line graph shows that the foreign exchange demand decreased from 50 billion dollars in 2019 to 40 billion dollars in 2020, indicating a decline.

PASSAGE BASED QUESTION

93. Depreciation of a domestic currency means a fall in its value relative to foreign currency, occurring in a flexible exchange rate system. It often happens when the demand for foreign currency increases or its supply decreases.

What causes depreciation of domestic currency?

- (a) Increase in foreign currency demand.
- (b) Increase in domestic inflation rates.
- (c) Fixed exchange rate system.
- (d) Higher remittances from abroad.

Ans :

DELHI 2018

- (a) Increase in foreign currency demand.

Depreciation occurs when demand for foreign currency rises, reducing the relative value of the domestic currency under a flexible exchange rate system.

72. How does appreciation of domestic currency impact exports?

- (a) Exports become more expensive for foreign buyers.
- (b) Exports become cheaper for foreign buyers.
- (c) Export demand remains unaffected.
- (d) Export prices depend solely on inflation.

Ans :

FOREIGN 2003

- (a) Exports become more expensive for foreign buyers.

Appreciation increases the value of domestic currency, making goods more expensive in foreign markets and reducing export competitiveness.

ASSERTION AND REASON

73. Assertion : Increase in price of foreign currency increases exports.

Reason : Increase in foreign exchange rate makes home currency cheaper to foreigners leading to increase in foreign demand for domestic goods.

- (a) Both Assertion and Reason are true and Reason is the correct explanation of Assertion.
- (b) Both Assertion and Reason are true and Reason is not the correct explanation of Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

SQP 2021

- (a) Assertion and reason both are correct statements and reason is correct explanation for assertion.

74. Assertion : There is a direct relationship between the price of a foreign currency and demand for foreign exchange.

Reason : When the exchange rate rises, demand for foreign exchange falls and vice versa.

- (a) Both Assertion and Reason are true and Reason is the correct explanation of Assertion.
- (b) Both Assertion and Reason are true and Reason is not the correct explanation of Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

COMP 2023

- (d) Assertion is false but Reason is true

75. Assertion : Incentives given for increasing exports result in a fall in foreign exchange rate.

Reason : Increased inflow of foreign exchange, demand for foreign exchange remaining unchanged, brings a likely fall in foreign exchange rate.

- (a) Both Assertion and Reason are true and Reason is the correct explanation of Assertion.
- (b) Both Assertion and Reason are true and Reason is not the correct explanation of Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

DELHI 2000

- (a) Both Assertion and Reason are true and Reason is the correct explanation of Assertion.

76. Assertion : Depreciation of a currency occurs under flexible exchange rate system.

Reason : Depreciation and devaluation both imply a fall in the price of domestic currency in terms of foreign currency.

- (a) Both Assertion and Reason are true and Reason is the correct explanation of Assertion.
- (b) Both Assertion and Reason are true and Reason is not the correct explanation of Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

OD 2001

- (a) Both Assertion and Reason are true and Reason is the correct explanation of Assertion.

77. Assertion : Capital account transactions do not directly affect the level of national income.

Reason : Capital account transactions are called below the line transactions.

- (a) Both Assertion and Reason are true and Reason is the correct explanation of Assertion.
- (b) Both Assertion and Reason are true and Reason is not the correct explanation of Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

FOREIGN 2004

- (c) Assertion is true but Reason is false.

78. Assertion : The trade account is also called the merchandise account.

Reason : The balance of exports and imports of visible and invisible items is called balance of trade.

103. What is floating exchange rate?

Ans :

COMP 2019

A floating exchange rate is determined by market forces without government or central bank intervention.

104. Give meaning of managed floating exchange rate.

Ans :

DELHI 2022

A managed floating exchange rate is a system where the government, through the central bank, may intervene to influence the exchange rate.

105. Give the meaning of balance of payments.

Ans :

FOREIGN 2021

The Balance of Payments is a systematic record of all economic transactions between a country's residents and the rest of the world over a specific period.

106. What is 'trade balance'?

or

Give meaning of Balance of Trade.

Ans :

OD 2023

The trade balance, or balance of trade, is the difference between the value of a country's imports and exports of tangible goods.

107. Name two 'invisibles' of the balance of payments account.

Ans :

SQP 2000

Insurance and banking.

enhance the availability of foreign exchange within the economy.

109. State two sources of demand for foreign exchange.

Ans :

COMP 2001

The demand for foreign exchange stems from two primary sources :

- (i) Payments required for importing goods and services from other countries, ensuring access to global resources and products and
- (ii) Payments made for unilateral transfers, which include sending gifts, remittances, or other one-sided financial contributions to individuals or organizations abroad. These factors collectively generate the need for foreign currency.

110. When price of a foreign currency falls, the supply of that foreign currency also falls. Why?

Ans :

DELHI 2018

A decrease in the price of a foreign currency (i.e., a fall in the exchange rate) leads to higher export prices for foreign buyers. This increase in export costs discourages foreign demand for domestic goods and services, resulting in a decline in the inflow or supply of foreign currency into the domestic economy, impacting trade dynamics.

111. How can increase in foreign direct investment affect the price of foreign exchange?

Ans :

DELHI 2002

An increase in foreign direct investment (FDI) boosts the inflow of foreign currency into the domestic economy, leading to an enhanced supply of foreign exchange. This higher availability of foreign exchange typically reduces its market price, making it more affordable and stabilizing exchange rate fluctuations, thereby benefiting the overall economic environment and fostering trade.

112. What will be the effect of foreign investments in India on exchange rate? Explain.

Ans :

OD 2004

Foreign investments in India contribute to a greater inflow of foreign currency, thereby increasing its supply in the domestic market. This surplus of foreign exchange causes a reduction in the exchange rate, meaning that the value of the domestic currency rises or appreciates relative to the foreign currency. Such appreciation reflects a stronger domestic currency, influencing trade balances and economic transactions favorably.

TWO MARK QUESTIONS

108. State two sources of supply of foreign exchange.

or

State any two factors responsible for inflow of foreign currency.

Ans :

COMP 2019

Foreign exchange supply arises primarily from three sources :

- (i) Receipts from exporting goods and services,
- (ii) Investments by foreign firms in domestic markets, purchasing goods or services and
- (iii) Inflow of foreign currency facilitated by speculators or currency dealers engaging in market activities. These sources collectively

85. Statement 1 : Depreciation of domestic currency occurs due to an increase in demand for foreign currency.

Statement 2 : It leads to domestic goods becoming cheaper in foreign markets.

- (a) Both statements are true.
- (b) Both statements are false.
- (c) Statement 1 is true and Statement 2 is false.
- (d) Statement 1 is false and Statement 2 is true.

Ans :

DELHI 2011

(a) Both statements are true.

Depreciation occurs when demand for foreign currency rises, reducing the value of domestic currency, making exports cheaper.

86. Statement 1 : Balance of Trade (BOT) is the net difference between exports and imports of goods.

Statement 2 : BOT includes services like banking and shipping.

- (a) Both statements are true.
- (b) Both statements are false.
- (c) Statement 1 is true and Statement 2 is false.
- (d) Statement 1 is false and Statement 2 is true.

Ans :

OD 2014

(c) Statement 1 is true and Statement 2 is false.

BOT only accounts for tangible goods traded internationally, excluding services, which are part of invisible trade.

87. Statement 1 : A managed floating exchange rate allows central bank intervention.

Statement 2 : Under this system, the government fixes the exchange rate permanently.

- (a) Both statements are true.
- (b) Both statements are false.
- (c) Statement 1 is true and Statement 2 is false.
- (d) Statement 1 is false and Statement 2 is true.

Ans :

FOREIGN 2018

(c) Statement 1 is true and Statement 2 is false.

Managed floating systems permit central banks to stabilize market fluctuations but do not involve permanently fixed exchange rates.

88. Statement 1 : Autonomous transactions in the Balance of Payments are profit-driven.

Statement 2 : These transactions are primarily undertaken to balance the BOP deficit.

- (a) Both statements are true.
- (b) Both statements are false.
- (c) Statement 1 is true and Statement 2 is false.
- (d) Statement 1 is false and Statement 2 is true.

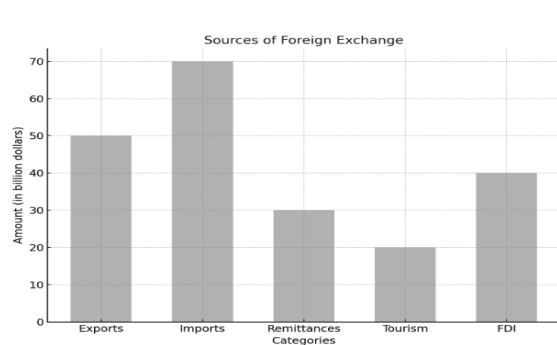
Ans :

SQP 2020

(c) Statement 1 is true and Statement 2 is false. Autonomous transactions occur naturally in trade or investments for profit and are not intended to address BOP deficits.

GRAPH BASED QUESTIONS

89. The bar graph represents various sources of foreign exchange for a country in billion dollars. Based on the data, which category contributes the highest amount of foreign exchange?



- (a) Exports
- (b) Imports
- (c) Remittances
- (d) FDI

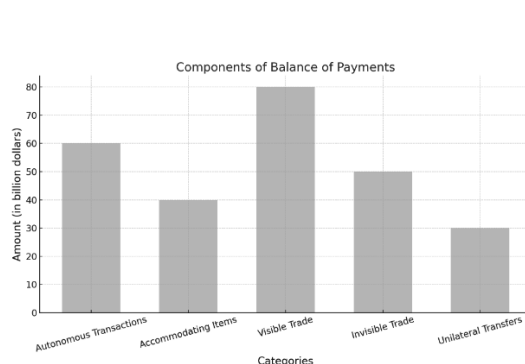
Ans :

COMP 2012

(b) Imports

According to the bar graph, imports contribute the highest value at 70 billion dollars, indicating significant demand for foreign currency due to international trade activities.

DIRECTION : Read the following bar graph and answer the following question :



demand for gold will, in turn, lower the demand for foreign exchange required to purchase it. Consequently, this measure is likely to have a positive and favorable impact on the Balance of Payments (BOP) by reducing external outflows.

- 121.** If inflation is higher in country A than in country B and the exchange rate between the two countries is fixed, what is likely to happen to the trade balance between the two countries?

Ans :

DELHI 2011

When country B increases exports to country A, it experiences a surplus in its balance of trade due to the higher volume of goods sold. However, the elevated prices in country A make imports from country B more expensive, causing country A's imports to rise. This results in a trade balance deficit for country A, highlighting the interconnected nature of international trade dynamics.

- 122.** Dividend received from investment abroad is recorded on the credit side of the capital account.

or

Giving valid reason, state whether the following statement is true or false.

Ans :

SQP 2023

The statement is false Dividend received from investments abroad is recorded in the Current Account of the Balance of Payments, not the Capital Account This income is entered on the credit side of the Current Account, as it reflects earnings rather than changes in a country's assets or liabilities, thus not impacting the financial position under the Capital Account.

- 123.** 'Indians investing in assets abroad' will be recorded under debit side of capital account in Balance of Payments.

Ans :

COMP 2020

The statement is true. When Indians invest in assets abroad, it results in an outflow of foreign exchange from the country. Such transactions are classified under the Capital Account in the Balance of Payments and are recorded on the debit side as negative items, reflecting the reduction in the country's foreign exchange reserves due to outward financial investments.

- 124.** Excess of foreign exchange receipts over foreign exchange payments on account of accommodating transactions equals deficit in the balance of payments. (True/false)

Ans :

OD 2014

The statement is false A deficit in the balance of payments occurs when the outflow of foreign exchange from autonomous transactions exceeds the inflow. This imbalance indicates that a country is spending more on imports, investments, or other autonomous activities than it earns, leading to a shortfall in the overall balance of payments.

- 125.** In which sub-account and on which side of the Balance of Payments Account such lending is recorded? Give reasons.

Ans :

FOREIGN 2018

When Indian investors lend money abroad, the transaction is recorded on the debit side of the Capital Account in the Balance of Payments. This is because such lending results in the creation of foreign exchange assets while simultaneously causing an outflow of foreign exchange from the domestic economy. The debit entry reflects the reduction in available foreign currency reserves due to these international investments.

- 126.** Giving reasons, state whether the following statements are true or false:

- Current account of Balance of Payments account records only exports and imports of goods and services.
- Foreign investments are recorded in the capital account of balance of payments.

Ans :

SQP 2020

- The statement is false : The current account of the Balance of Payments not only records the export and import of goods and services but also includes unilateral transactions such as one-sided receipts and payments, like gifts, remittances, or grants.
- The statement is true : Foreign investments, which involve financial flows for acquiring assets or stakes, are recorded under the capital account of the Balance of Payments.

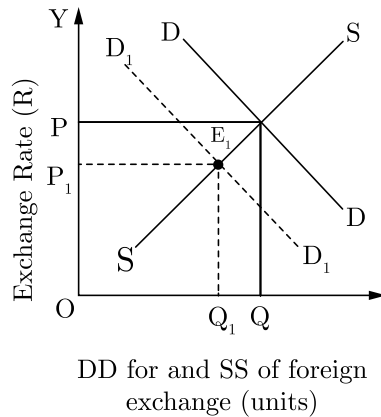
- 127.** Are the following entered (i) on the credit side or the debit side and (ii) in the current account or capital account in the Balance of Payments account? You must give reason for your answer.

- Investments from abroad.
- Transfer of funds to relatives abroad.

Ans :

COMP 2017

- Investments from abroad are recorded on the credit side of the Capital Account in the Balance of Payments because they result in an



In the accompanying diagram, the new equilibrium point shifts to E_2 , where the exchange rate falls from OP to OP_1 , reflecting the reduced demand and strengthened rupee value.

- 162.** What does balance of payments account show? Name the two parts of the balance of payments account.

Ans : DELHI 2020

The Balance of Payments (BOP) account reflects a country's foreign exchange inflows and outflows over a specific period. It is divided into two key parts:

- (i) The Current Account : This section captures all transactions related to the import and export of goods and services, along with unilateral transfers such as gifts and remittances during the given time frame.
- (ii) The Capital Account : It records all financial transactions between the residents of a country and the rest of the world, including investments, loans and other capital movements. Together, these components offer a comprehensive view of international economic activity.

- 163.** List the transactions of Current Account of the Balance of Payments Account.

Ans : OD 2017

The Current Account of the Balance of Payments (BOP) consists of several essential components that capture a country's trade and financial transactions over a specific period :

- (i) Exports and imports of goods : Also referred to as visibles, these include tangible products traded internationally.
- (ii) Exports and imports of services : Known as invisibles, these encompass services like

banking, insurance and tourism.

- (iii) Transfer receipts and payments : These include unilateral transfers, such as gifts, remittances and donations between countries.
- (iv) Investment income : This comprises earnings from foreign investments, such as interest, dividends and profits.

- 164.** State the components of capital account of balance of payments.

Ans : FOREIGN 2013

The Capital Account of the Balance of Payments includes the following key components:

- (i) Borrowings and lendings with foreign entities : This involves loans taken from or extended to other countries, including both public and private sector transactions.
- (ii) Foreign investments : It records investments made by residents in foreign countries and foreign investments within the domestic economy, such as Foreign Direct Investment (FDI) and portfolio investments.
- (iii) Changes in foreign exchange reserves : This reflects the adjustments in a country's reserve holdings of foreign currencies, managed by the central bank to stabilize the economy.

- 165.** List the items included as invisibles in the balance of payments account.

Ans : SQP 2015

The Balance of Payments account includes certain transactions classified as invisibles, which represent non-tangible economic exchanges. These items include:

- (i) Exports and imports of services : These refer to services traded internationally, such as tourism, banking, insurance and consulting.
- (ii) Transfers to and from abroad : These involve unilateral transfers like remittances, gifts, donations, or aid sent or received between countries.
- (iii) Income from and to abroad : This encompasses earnings such as interest, dividends and profits derived from investments made in foreign countries or by foreign entities in the domestic economy.

- 166.** Explain the concept of 'surplus' in the balance of payments account.

become more competitive in the international market due to their lower relative prices. Therefore, depreciation of a country's currency typically results in a rise in its export levels.

- 133.** What is meant by official reserve transactions? Discuss their importance in balance of payments?

Ans :

COMP 2019

Transactions that lead to changes in the official reserves of a country's Central Bank are referred to as official reserve transactions. Also known as accommodating transactions in the Balance of Payments (BOP), these adjustments aim to address imbalances in the BOP. When a BOP deficit occurs, the Central Bank reduces its official reserves to manage the shortfall. Conversely, during a BOP surplus, official reserves are increased. These transactions play a vital role in maintaining the overall equilibrium in a nation's international financial position.

- 134.** In which sub-account and on which side of balance of payments account will foreign investments in India be recorded? Give reasons.

Ans :

OD 2023

Foreign investments in India are entered on the credit side of the Capital Account in the Balance of Payments (BOP) and denoted by a positive sign. This is because borrowings and investments from the international community constitute the primary components of the Capital Account. Furthermore, any inflow of foreign exchange or financial receipts from other nations is treated as a credit entry. These investments signify a positive flow of funds into the country, enhancing its financial position and contributing to the balance of the Capital Account.

- 135.** Explain, what can be the likely impact of depreciation of the home currency on imports to the country.

Ans :

DELHI 2020

Depreciation refers to a decrease in the value of the domestic currency relative to a foreign currency. As a result, the domestic currency loses value, requiring more units of it to purchase one unit of the foreign currency. This change makes imports more expensive because a higher amount of domestic currency is needed to buy goods worth \$ 1. Consequently, foreign goods become costlier for domestic consumers, which typically causes a

reduction in the volume of imports, as purchasing foreign products becomes less economical.

- 136.** Depreciation of the Indian Currency will lead to promotion of Indian exports. State the given statement is true or false.

Ans :

DELHI 2023

Depreciation of the Indian currency means that more rupees are now needed to purchase a foreign currency, such as the US dollar. This also signifies that with the same amount of foreign currency, a larger quantity of goods can be purchased from the domestic market. Consequently, the depreciation of the Indian currency enhances the competitiveness of Indian exports on the global stage. As Indian goods become more affordable for international buyers, this promotes exports and strengthens their position in the global market.

- 137.** Depreciation of currency has same effect on exports as devaluation of currency. State whether the given statement is true or false.

Ans :

SQP 2020

In both depreciation and devaluation scenarios, the exports of goods and services from a country tend to increase. This happens because the reduced value of the domestic currency allows other countries to purchase more goods and services at a relatively lower cost. Consequently, exports become more attractive and competitive in international markets. This enhanced affordability encourages higher demand for domestic goods and services abroad, thereby boosting export levels and contributing positively to the country's trade balance and economic growth.

- 138.** What effect will depreciation of the Indian rupee have on the current account deficit?

Ans :

COMP 2017

The depreciation of the rupee makes foreign goods more expensive, leading to a reduction in imports. Simultaneously, exports are likely to increase as domestic goods become cheaper and more attractive to foreign buyers. This should ideally reduce the current account deficit. However, if essential commodities and raw materials dominate imports, reducing their volume may not be feasible. In such cases, the import bill could rise despite depreciation, potentially worsening the current account deficit instead of improving it.

- 139.** Explain the effect of a rise in the price of foreign currency on exports.

or

Foreign exchange rate in India is on the rise recently. What impact is it likely to have on exports and how?

Ans :

DELHI 2013

When the price of foreign currency rises, it leads to an increase in the home country's exports, indicating a depreciation of the domestic currency. For example, if the value of the US dollar increases against the Indian rupee from ₹70 to ₹80, a US citizen can now purchase goods worth ₹80 with one dollar, compared to ₹70 previously. This makes Indian goods more affordable for American buyers, encouraging them to purchase more from India. Consequently, the depreciation boosts India's exports by enhancing their international competitiveness.

- 140.** Foreign exchange rates have risen considerably in a country. What is its likely impact on imports of that country and why?

Ans :

OD 2015

An increase in the foreign exchange rate occurs when foreign currency becomes costlier relative to the domestic currency. In Country A, where foreign exchange rates have risen significantly, imported goods become more expensive. This means Country A must spend more of its currency to pay for the same amount of imports, leading to higher import costs. Consequently, this adversely impacts the volume of imports, as purchasing foreign goods becomes less economical. To address this, efforts are typically focused on reducing the country's reliance on imports.

- 141.** Explain the effect of appreciation of domestic currency on imports.

Ans :

FOREIGN 2012

Appreciation of the domestic currency refers to an increase in its external value in the foreign exchange market. For instance, if the rupee-dollar exchange rate changes from $1\$ = ₹80$ to $1\$ = ₹70$, the domestic currency has appreciated. This appreciation makes imports more affordable, leading to an increase in imported goods and services. Conversely, exports tend to decline because foreign buyers now pay a reduced amount for the same quantity of goods, making domestic products relatively less competitive in global

markets.

- 142.** Explain the effect of appreciation of domestic currency on exports.

Ans :

SQP 2016

The appreciation of domestic currency signifies an increase in its value relative to foreign currency. As a result, fewer units of the domestic currency are required to purchase foreign currency. This appreciation makes domestic goods more expensive for international buyers, reducing their demand. Consequently, the country's exports experience a decline due to higher prices, negatively affecting foreign trade and competitiveness in global markets. Thus, appreciation has significant implications for export-oriented businesses and the broader economic balance.

- 143.** Explain the effect of a fall in the price of foreign currency on exports.

Ans :

COMP 2019

A decrease in the price of foreign currency adversely impacts a home country's exports. When the value of a foreign currency declines, foreign buyers must spend more of their currency to purchase the same quantity of goods from the home country. This increase in relative cost discourages foreign buyers, leading to reduced demand for the home country's exports. Consequently, export volumes drop, negatively affecting trade balances and the competitiveness of the home country's goods in international markets. This highlights the economic challenges of foreign currency depreciation.

- 144.** Explain the effect of a fall in the price of foreign currency on imports.

Ans :

DELHI 2022

When the price of foreign currency decreases, imports become more affordable. Consequently, citizens of the home country, such as India, can purchase a larger quantity of foreign goods for the same amount of Indian rupees. This leads to a rise in imports as foreign products become more cost-effective. For instance, if the value of the American dollar drops, Indian buyers will increase imports from America since American goods will now be cheaper for them. This shift encourages greater consumption of imported goods due to favorable exchange rates.

- 145.** Recently Indian Rupee (₹) has depreciated significantly. This has led to distress for Indian Importers.' Defend or refute the given statement with valid reasons.

Ans :

COMP 2020

I support this statement. Depreciation refers to a decline in the value of the domestic currency relative to a foreign currency. This implies that \$1 will now require more Indian rupees (₹) for exchange. In simpler terms, a larger amount of domestic currency is needed to purchase goods worth one Dollar. Consequently, imports become more expensive, leading to a reduction in the volume of imports. This situation creates financial challenges for Indian importers, as they face increased costs for procuring foreign goods and services.

- 146.** Differentiate between the concepts of 'demand for domestic goods and services' and 'domestic demand for goods and services.'

Ans :

DELHI 2020

The demand for domestic goods and services refers to the consumption of goods and services produced within a country's domestic territory by both domestic and foreign consumers. It represents the total demand for products and services originating from within the country, irrespective of who consumes them. On the other hand, domestic demand for goods and services includes not only those produced within the domestic territory but also those produced outside the country and consumed by domestic residents. This distinction highlights the scope of demand based on production origin and consumer location.

- 147.** State any three sources of demand for foreign exchange.

Ans :

OD 2021

The demand for foreign exchange arises due to several reasons:

- (i) Imports : Foreign exchange is essential for governments and individuals to pay for imported goods and services from other countries.
- (ii) Purchase of financial assets abroad : Investors seeking to buy financial assets, such as stocks, bonds, or real estate in foreign countries, require foreign currency for such transactions.
- (iii) Unilateral transfers : Foreign exchange is

needed for sending transfer payments to other countries, including gifts, donations, or remittances. These factors collectively drive the need for foreign currency in the global economy.

- 148.** State any three sources of supply of foreign exchange.

Ans :

FOREIGN 2023

The supply of foreign exchange originates from several key sources:

- (i) Exports : Foreign exchange is earned through the export of goods and services to other countries, as foreign buyers pay in their currency.
- (ii) Unilateral transfers : It also flows in from gifts, donations and remittances sent by individuals or organizations from abroad.
- (iii) Foreign investments : Investments made by foreign entities or individuals in the home country, such as in businesses, real estate, or financial assets, contribute significantly to the supply of foreign exchange, enhancing the country's reserves.

- 149.** Why are foreign exchange rate and demand for foreign exchange inversely related? Explain.

Ans :

SQP 2000

When the foreign exchange rate increases, it indicates a depreciation of the domestic currency relative to foreign currency. Domestic consumers must now spend more to purchase goods and services from abroad, reducing their demand for imports and subsequently lowering the demand for foreign exchange. Conversely, when the foreign exchange rate decreases, the domestic currency appreciates in value. This makes imports cheaper, encouraging consumers to buy more foreign goods, which increases the demand for foreign exchange. Thus, the foreign exchange rate and the demand for foreign exchange share an inverse relationship.

- 150.** Giving two examples, explain the relation between the rise in price of a foreign currency and its demand.

or

Explain why is there a fall in demand for foreign exchange when its price rises.

Ans :

COMP 2001

There is a clear inverse relationship between the price of a foreign currency and its demand. When the price of foreign currency rises, more of

inflow of foreign exchange into the domestic economy.

- (ii) Transfers of funds to relatives abroad are entered on the debit side of the Current Account as they involve an outflow of domestic currency, reducing the country's foreign exchange reserves.

- 128.** There will sale of machinery to abroad be recorded in the Balance of Payments Accounts? Give reasons.

Ans :

DELHI 2013

The sale of machinery abroad qualifies as an export of a visible item and forms part of a country's visible trade. Visible trade, which includes the export and import of goods, is recorded under the Current Account of the Balance of Payments (BOP). Since exports generate foreign exchange inflows, the sale of machinery abroad is recorded as a credit item (positive entry) in the Current Account of the BOP.

- 129.** Where is 'borrowings from abroad' recorded in the Balance of Payments Accounts? Give reasons.

Ans :

OD 2015

Borrowings from abroad" are recorded in the Capital Account of the Balance of Payments (BOP) because they increase the country's international liabilities. The Capital Account documents international transactions that impact a nation's foreign assets and liabilities. Borrowings by entities such as the private sector or government are entered on the credit side of the Capital Account, as they result in an inflow of foreign exchange into the domestic economy.

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THREE MARK QUESTIONS

- 130.** Give the meaning of 'devaluation' and 'depreciation' of domestic currency.

Ans :

FOREIGN 2012

Depreciation of Currency and Devaluation of Currency

Basis	Depreciation of Currency	Devaluation of Currency
-------	--------------------------	-------------------------

Meaning	It refers to fall in the value of domestic currency in terms of foreign currency under flexible exchange rate regime. For example, rupee-dollar exchange rate changes from 1 dollar = ₹70 to 1\$ = ₹80	It refers to reduction in price of domestic currency in terms of foreign currency under fixed exchange rate regime.
Government Interruption	There is no government interruption as it is done on the basis of forces of demand and supply in the market.	It is done by the government authorities.
Rate	It is done by using floating exchange rate.	It is done by using fixed exchange rate.

- 131.** What is meant by appreciation and depreciation of domestic currency? Explain.

Ans :

SQP 2016

In currency depreciation, the domestic currency's value decreases against a foreign currency. For instance, when the rupee-dollar rate shifts from 1\$ = ₹70 to 1\$ = ₹80. In contrast, currency appreciation occurs when the domestic currency's value rises relative to foreign currency, such as a shift from 1\$ = ₹80 to 1\$ = ₹70. These phenomena are driven by supply and demand forces in the foreign exchange market, influencing the value of a nation's currency in global trade and financial transactions.

- 132.** Explain the effect of depreciation of domestic currency on exports.

Ans :

COMP 2023

When the domestic currency depreciates, it leads to an increase in exports and a decline in imports. This occurs because, with the same amount of foreign currency, more goods can be purchased in the domestic market. For instance, one American dollar will now buy a larger quantity of goods domestically. Consequently, domestic products

also rises. Explain. Why?

Ans :

COMP 2003

When the price of a foreign currency, such as the US dollar, increases relative to the domestic currency, such as the Indian rupee - rising from 1\$ = ₹70 to 1\$ = ₹80 - it makes the home country's goods more affordable for foreign buyers. In this case, Americans can now purchase Indian goods worth ₹80 instead of ₹70 for the same dollar. This encourages America to import more goods from India, boosting Indian exports. Consequently, the supply of foreign exchange, like the US dollar, increases. Thus, an increase in the price of foreign currency leads to higher supply.

157. What are fixed and flexible exchange rates?

Ans :

DELHI 2005

A fixed exchange rate system is one where the government or central bank sets and maintains the exchange rate for a currency, ensuring it is unaffected by the forces of demand and supply in the foreign exchange market. This system is primarily adopted to maintain stability in foreign trade and facilitate smooth capital movements. In contrast, a flexible exchange rate system allows the exchange rate to be determined by market forces, specifically the demand and supply of currencies. With no government intervention, this system is also referred to as a floating exchange rate.

158. Give the meaning of foreign exchange rate. How is it determined under flexible exchange rate regime?

Ans :

OD 2002

The rate at which one country's currency is exchanged for another's is called the exchange rate. It can be either fixed or flexible. A fixed exchange rate is set deliberately by the government, ensuring stability. In contrast, a flexible exchange rate is determined by market forces, specifically the demand for and supply of foreign exchange. Presently, most exchange rates are flexible. There is an inverse relationship between the demand for a foreign currency and its price in domestic currency, whereas the supply of foreign currency shares a direct relationship with its price.

159. Explain the meaning of Managed Floating Exchange Rate

Ans :

FOREIGN 2011

A managed floating exchange rate system is one where the exchange rate is primarily determined by market forces but is also influenced by the central bank's interventions in the foreign exchange market. This system combines elements of both fixed and flexible exchange rate systems. The central bank intervenes to minimize excessive fluctuations, keeping the exchange rate within acceptable limits. If the exchange rate rises too high, the central bank sells foreign currency from its reserves. Conversely, if the exchange rate falls too low, the central bank buys foreign currency. This approach, often called "dirty floating," aims to maintain exchange rates near desired target levels'.

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160. The central bank takes steps to control rise in the price of foreign exchange. Explain the economic values it involves as far as the common man is concerned.

Ans :

SQP 2014

In a managed floating exchange rate system, market forces primarily determine the exchange rate, but the central bank intervenes to limit excessive fluctuations. An increase in the exchange rate negatively impacts imports, raising the cost of foreign goods and potentially hindering the country's development. Reduced import capacity can lead to inflation, increasing the prices of essential goods and services. This inflation directly affects the common man by eroding purchasing power, making everyday expenses more burdensome. Therefore, central bank intervention helps stabilize exchange rates and safeguard economic stability.

161. Recently Government of India has doubled the import duty on gold. What impact is it likely to have on foreign exchange rate and how?

Ans :

COMP 2018

The Government of India's decision to double the import duty on gold increases the cost of importing gold, leading to reduced demand for foreign currency to purchase it. This reduction in demand shifts the demand curve for foreign currency leftward, represented as D_1D_1 . With the supply of foreign currency unchanged, the exchange rate decreases, resulting in an appreciation of the Indian rupee.

- (ii) On the other hand, the import of pulses necessitates an outflow of foreign exchange to pay for these goods. This outflow negatively impacts the country's balance of payments, as it increases expenditures on imports, potentially widening the deficit and reducing the nation's foreign exchange reserves.

172. Define "Trade surplus". How is it different from "Current Account Surplus"?

Ans :

COMP 2019

Trade Surplus refers to a condition where the value of a country's exports of goods and services exceeds the value of its imports. It reflects a favorable trade balance, indicating that the country is selling more to the rest of the world than it is buying.

A trade surplus differs from a Current Account Surplus, which is a broader measure within the Balance of Payments. The current account includes not only the trade balance (exports and imports of goods and services) but also unilateral transfers, such as remittances and gifts.

173. Trade Deficit must exist, if a country is facing situation of Current Account Deficit (CAD). Defend or refute the above mentioned statement with valid arguments.

Ans :

DELHI 2000

The statement is refuted because the Current Account Deficit is a broader concept than the Trade Deficit. A Current Account Deficit occurs when a country's foreign exchange payments for visibles (goods), invisibles (services) and unilateral transfers exceed its receipts from these sources.

It is possible for a country to experience a Current Account Deficit even while maintaining a trade surplus. This can happen if the negative balances from services and unilateral transfers outweigh the surplus generated by the trade of goods. Hence, the Current Account Deficit reflects a more comprehensive imbalance.

174. State on which side of capital account/current account will the following transactions be recorded and why :

- (i) Interest on loan received from Nepal
- (ii) Import of mobile phones from China

Ans :

DELHI 2019

- (i) Interest received on a loan from Nepal is recorded on the credit side of the current account in the Balance of Payments, as it

represents income earned from a foreign country. All types of investment income, including interest, rent and profits earned from abroad, are consistently recorded as credits in the current account, reflecting inflows of foreign exchange.

- (ii) The import of mobile phones from China is categorized as part of the country's visible trade and is recorded on the debit (negative) side of the current account. Payments for imported goods are always reflected as outflows of foreign exchange, reducing the overall balance in the account.

175. In the context of balance of payments account, state whether the following statements are true or false. Give reasons for your answer.

- (i) Profits received from investments abroad is recorded in capital account.
- (ii) Import of machines is recorded in current account.

Ans :

OD 2001

- (i) The statement is incorrect. Profits earned from investments abroad are part of factor income and are included under exports and imports of services. These transactions are recorded in the current account of the Balance of Payments, as they do not impact foreign exchange assets or liabilities directly. Thus, the claim that profits from foreign investments do not belong to the current account is false.
- (ii) The statement is correct. The export and import of goods, known as visible trade, include transactions such as the import of machinery. Since this is part of tangible goods trade, it falls within the scope of the current account. Therefore, the statement is true.

176. Name the broad categories of transactions recorded in the 'current account' of the Balance of Payments Accounts.

Ans :

FOREIGN 2004

The transactions recorded in the current account of the Balance of Payments are categorized as follows:

- (i) **Export and Import of Goods (Visible) :** This refers to the trade of tangible goods and the difference between visible exports and imports is called the balance of trade.
- (ii) **Export and Import of Services (Invisible Trade) :** This includes transactions in services

Ans :

COMP 2012

The Balance of Payments (BOP) is considered in surplus when a country's autonomous receipts exceed its autonomous payments during a specific period. This indicates that the domestic country has net claims on foreign countries, reflecting a favorable trade and financial position. A surplus can stimulate economic growth in the short run by increasing foreign reserves and boosting domestic production. However, over the long term, reliance on export-driven growth may pose risks, as excessive dependence on external demand can make the economy vulnerable to global market fluctuations and trade uncertainties.

- 167.** Explain the meaning of balance of payments deficit.

Ans :

DELHI 2016

Transactions in the Balance of Payments (BOP) are categorized into autonomous transactions and accommodating transactions. Autonomous transactions occur due to economic motives, such as earning profits or returns on investments.

When the total inflows from autonomous transactions fall short of the total outflows, it results in a deficit in the BOP account. This deficit indicates that the country is engaging in significant lending or transfers to foreign countries. Such a situation reflects an imbalance, where the nation is sending out more resources than it receives, impacting the overall economic stability.

- 168.** Which transactions determine the balance of trade? When is balance of trade in surplus?

Ans :

OD 2019

The balance of trade is determined by two primary types of transactions : payments made for imports and payments received for exports of goods. It specifically accounts for visible items, meaning tangible goods traded internationally. When the value of goods exported exceeds the value of goods imported, the balance of trade is in surplus, indicating a favorable trade position. Conversely, if the value of imports surpasses that of exports, the balance of trade will be in deficit. This measure reflects the trade performance of a country based solely on goods.

- 169.** Is the exchange rate effected by deficit or surplus in BOP? Explain.

Ans :

FOREIGN 2022

Yes, a deficit or surplus in the Balance of Payments (BOP) significantly impacts the exchange rate. A BOP deficit occurs when payments exceed receipts, indicating higher demand for foreign exchange. This increased demand pushes up the exchange rate, causing the domestic currency to depreciate. Conversely, a BOP surplus implies that receipts exceed payments, resulting in an increased supply of foreign currency. This surplus reduces the exchange rate, leading to an appreciation of the domestic currency. Thus, the state of the BOP directly influences the value of a country's currency in the exchange market.

- 170.** Define with suitable examples, autonomous transactions and accommodating transactions in the Balance of Payments of an economy.

Ans :

SQP 2021

Autonomous transactions : Autonomous transactions in the Balance of Payments (BOP) mean those items which are motivated by profit consideration. Therefore, those items of international economic transactions which are motivated by profit consideration are autonomous items such as import and export of goods and services and inflow and outflow of capital items. Autonomous items are independent of the State's or the Country's balance of payments.

Accommodating transactions : Accommodating items correct the disequilibrium in the balance of payments. BOP accounts may reflect deficit or surplus. These situations are corrected by the government by injecting or withdrawing funds. These transactions pertain to funding of or withdrawal from the official reserve system using gold, special drawing rights and foreign exchange reserves. When there is a deficit in the BOP accounts this is rectified through accommodating items.

- 171.** What will be the effect of the following on the balance of payments?

- Make in India' programme
- Import of pulses

Ans :

COMP 2023

- The Make in India' initiative is expected to attract significant foreign investment, resulting in an inflow of foreign exchange into the country. This increased supply of foreign exchange will strengthen India's foreign exchange reserves, thereby improving the balance of payments position.

the domestic currency is required to import the same quantity of goods, making imports costlier. Consequently, the demand for foreign currency decreases. For instance :

- (i) If the value of the US dollar rises in terms of Indian rupees, Indian consumers must pay more to purchase the same goods from the US, reducing imports and the demand for dollars.
- (ii) Similarly, a higher dollar price decreases demand for US services like banking or insurance, further reducing dollar demand.

- 151.** Explain why there is an inverse relationship between price of foreign currency and its demand.

Ans :

DELHI 2004

When the price of foreign currency rises, imports from that country become more expensive. For example, if the value of the US dollar increases, domestic buyers (e.g., Indians) must spend more to purchase the same quantity of goods from the US. This discourages imports, leading to a decrease in the demand for foreign goods and, consequently, a fall in the demand for foreign currency. Conversely, when the price of foreign currency falls, imports from that country become more affordable. This encourages increased imports, resulting in a rise in the demand for foreign currency.

- 152.** Explain why there is an increase in demand for foreign currency when its price falls.

or

When price of foreign currency falls, its demand rises. Explain why?

Ans :

SQP 2020

There is a clear inverse relationship between the price of foreign exchange, such as the US dollar and its demand in terms of domestic currency, like the Indian rupee. When the price of foreign exchange decreases, its demand increases. A lower price makes imports cheaper, encouraging higher imports and consequently increasing the demand for the foreign currency. For instance, if the US dollar costs ₹80, India spends ₹80 to buy goods worth one dollar. If the price drops to ₹70, imports become cheaper, prompting higher imports and greater demand for US dollars in the market.

- 153.** When price of a foreign currency falls, the supply of that foreign currency also falls. Explain, why.

Ans :

OD 2007

When the price of a foreign currency decreases, its demand increases as more of it is utilized to purchase foreign goods and services. This heightened demand reduces the availability of foreign currency in the market, leading to a decline in its supply. In other words, a lower price for foreign currency results in increased usage and consumption, thereby reducing its overall supply. This relationship indicates that as the price of foreign currency drops, its supply in the market also tends to diminish, reflecting a direct impact of demand on availability.

- 154.** Explain why is there a direct relationship between price and supply of a foreign currency.

Ans :

FOREIGN 2008

The supply of foreign currency shares a direct relationship with its price. When the price of foreign currency rises, its supply also increases and conversely, when the price falls, its supply decreases. A decline in the price of foreign currency boosts its demand as consumers require more foreign currency to purchase goods and services from abroad.

This heightened demand reduces the available supply of foreign currency. Conversely, when the price of foreign currency increases, the supply also rises as it becomes more profitable for holders to exchange or trade it.

- 155.** Why are foreign exchange rate and supply of foreign exchange directly related? Explain.

Ans :

SQP 2010

When the foreign exchange rate increases, domestic goods become more affordable for foreign buyers since they can purchase a larger quantity of domestic goods with the same amount of foreign currency. This boost in affordability raises the demand for exports, thereby increasing the supply of foreign exchange.

Conversely, when the foreign exchange rate decreases, domestic goods become more expensive for foreign buyers, reducing the demand for exports. As a result, the supply of foreign exchange declines. Hence, there is a direct relationship between the foreign exchange rate and the supply of foreign exchange.

- 156.** Explain why there is an increase in supply of foreign currency when its price rises.

or

When price of a foreign currency rises its supply

like shipping, banking, insurance and tourism.

- (iii) **Unilateral Transfers** : These are one-way transfers, such as gifts, donations and personal remittances, sent or received internationally.
- (iv) **Income Receipts and Payments** : These include investment incomes, such as interest, rent and profits earned or paid abroad.

FOUR MARK QUESTIONS

- 177.** Why does the demand for foreign currency fall and supply rise when its price rises? Explain.

Ans :

SQP 2007

The demand for foreign currency decreases when its price rises for two reasons : firstly, higher foreign exchange rates make imports more expensive, reducing import volumes and the need for foreign currency. Secondly, costlier foreign currency discourages international tourism, further lowering its demand. Conversely, the supply of foreign currency increases with its price. This is because higher exchange rates make domestic goods more affordable to foreign buyers, boosting exports and bringing in more foreign exchange. Additionally, a weaker domestic currency attracts foreign tourists, increasing their spending and enhancing the supply of foreign currency in the economy.

- 178.** Explain three sources of demand for foreign exchange and three sources of supply of foreign exchange.

Ans :

COMP 2008

The demand for foreign exchange arises primarily from importers who require foreign currencies to pay for imported goods and services, constituting the largest share of foreign currency demand. Additionally, foreign exchange is needed for sending remittances abroad, including gifts and other transfer incomes. Those investing in financial assets like shares and debentures of foreign companies also contribute to its demand. On the supply side, foreign investment serves as a significant source, as investors bring currencies into the domestic market. Exporters contribute by earning foreign currencies through international sales, while non-residents further boost supply through direct purchases in the domestic economy.

- 179.** Give the meaning of 'foreign exchange' and foreign exchange rate'. Giving reason, explain the relation between foreign exchange rate and demand for foreign exchange.

Ans :

DELHI 2010

Foreign exchange refers to foreign currency or a country's reserves of foreign currency held at a specific time. It represents the stock of foreign currencies that a nation possesses. The foreign exchange rate is the price at which one country's currency is exchanged for another, such as Indian rupees (₹) for US dollars (\$). This rate reflects the external value of the domestic currency and its purchasing power compared to another currency. There is an inverse relationship between the exchange rate and foreign exchange demand. A lower exchange rate makes foreign goods cheaper, increasing demand for foreign currency, while a higher rate decreases demand.

- 180.** Distinguish between fixed and flexible foreign exchange rate. Also, explain the managed floating exchange rate.

Ans :

OD 2003

Fixed Exchange Rate and Floating Exchange Rate

Basis	Fixed Exchange Rate	Floating Exchange Rate
Meaning	The exchange rate for a currency which is called fixed exchange rate is fixed by the government.	The exchange rate which is determined by the market forces of demand and supply is known as flexible exchange rate.
Government control	There is complete government control as only government has the power to change it.	There is no government intervention and it fluctuates freely according to market condition.
Stability in exchange rate	The exchange rate generally remain exchange rate stable. A very small change from the fixed value is possible.	The exchange rate keeps on changing.

Managed floating Exchange Rate : Managed floating is a hybrid of fixed and flexible exchange

- (iii) Identify the incorrect statement from the following:
- There exists an inverse relation between exchange rate and demand for foreign exchange.
 - Under flexible exchange rate system, huge foreign exchange reserves are required to be maintained by the government.
 - An increase in demand for imported goods raises the foreign exchange rate.
 - Flexible exchange rate system can generate inflationary pressures in the economy.
- (iv) Identify the reason behind rise in the demand for foreign exchange accompanied by a fall in its price:
- Increase in imports
 - Boost to tourism
 - Both (a) and (b)
 - Neither (a) nor (b)

Ans :

- Managed Floating Exchange Rate System.
- Rise
- (b) Under flexible exchange rate system, huge foreign exchange reserves are required to be maintained by the government.
- (c) Both (a) and (b)

192. Read the para given below and answer the questions that follow:

Ever since world currencies let go of the gold standard and allowed their exchange rates to float freely against each other, there have been many currency devaluations that have hurt not only the citizens of the country but have also led to a greater impact across the globe. Despite the fallout, countries often choose to devalue their currency.

A strong currency may not necessarily be in a nation's best interests. A weak domestic currency makes a nation's exports more competitive in global markets and simultaneously makes imports more expensive. Higher export volumes spur economic growth, while pricey imports also have a similar effect because consumers opt for local alternatives to imported products. This improvement in the terms of trade generally translates into a lower current account deficit (or a greater current account surplus), higher employment and faster GDP growth. The stimulative monetary policies that usually result in a weak currency also have a positive impact on

the nation's capital and housing markets, which in turn boosts domestic consumption through the wealth effect. Currency devaluations can be used by countries to achieve economic policy. Having a weaker currency relative to the rest of the world can help boost exports, shrink trade deficits and reduce the cost of interest payments on its outstanding government debts.

There are, however, some negative effects of devaluations. They create uncertainty in global markets that can cause asset markets to fall or spur recessions. Countries might be tempted to enter a tit for tat currency war, devaluing their own currency back and forth in a race to the bottom. This can be a very dangerous and vicious cycle leading to much more harm than good.

- (i) Match the following:

	Column I		Column II
1.	Appreciation of domestic currency.	A.	Leads to fall in imports.
2.	Depreciation of domestic currency.	B.	Domestic currency becomes more valuable.
3.	Source of supply of foreign exchange.	C.	Sending remittances abroad.
4.	Source of demand for foreign exchange.	D.	Foreign investment

- B, A, D, C
- A, B, D, C
- B, A, C, D
- D, A, C, B

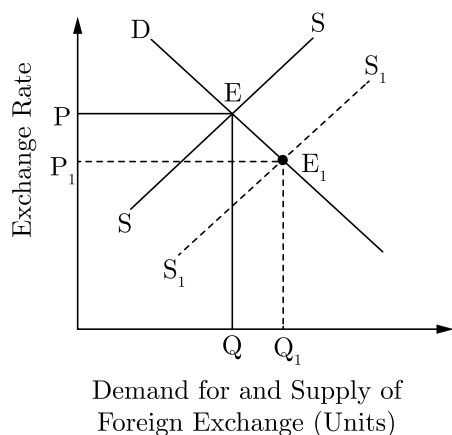
- (ii) Identify the incorrect statement from the following.
- Appreciation and depreciation of the currency mean the same.
 - Purchase of financial assets abroad is a source of supply for foreign exchange.
 - Demand of foreign currency rises when its price falls.
 - Both (a) and (b)
- (iii) Fall in the price of US Dollar from ₹80 to ₹75 implies that the Indian currency has _____ (appreciated/depreciated).
- (iv) In order to decrease the foreign exchange rate, the Reserve Bank of India can _____ (increase/decrease) the supply of foreign exchange in the free market by _____

- 184.** How does giving incentives for exports influence foreign exchange rate? Explain.

Ans :

COMP 2002

Providing incentives for exports boosts export volumes, increasing the inflow of foreign currency and shifting the supply curve from SS to S_1S_1 . This rise in foreign currency supply establishes a new equilibrium at point E_1 , causing the exchange rate to decline from OP to OP_1 . The lower exchange rate signifies a decrease in the price of foreign currency relative to domestic currency, indicating an appreciation of the domestic currency. This appreciation makes foreign goods cheaper for domestic consumers and reflects the impact of enhanced export activities on the foreign exchange market dynamics.



- 185.** Distinguish between Current Account and Capital Account.

Ans :

COMP 2014

Current Account and Capital Account

Basis	Current Account	Capital Account
Meaning	An account which records the export and import of goods and services and unilateral transfers done during the year.	Capital account of BOP records all those transactions, between the residents of a country and the rest of the world such as trading of foreign assets and liabilities.

Influence on the economy	Current account transactions bring a change in the current level of a country's income.	Capital transactions bring about a change in the capital stock of a country.
Components	Current account = Visible trade + Invisible trade + Unilateral transfers + Income receipts and payments.	Capital Account = Borrowings and lending to and from abroad + Investments to and from abroad + Change in foreign exchange reserves.

- 186.** Name the broad categories of transactions recorded in the 'capital account' of the Balance of Payments Accounts.

Ans :

FOREIGN 2020

The capital account of the Balance of Payments records transactions between a country's residents and the rest of the world that lead to changes in assets or liabilities of residents or the government. Focused on financial transfers, it does not directly impact income, output, or employment. Key categories include :

- Borrowings and lensings internationally by individuals, institutions and the government;
- Investments from and to abroad, such as foreign investments in Indian shares and real estate or Indian investments in foreign companies and properties and
- Changes in foreign exchange reserves, where withdrawals reduce foreign assets (credit entry) and vice versa.

- 187.** Distinguish between Current Account Deficit (CAD) and Current Account Surplus (CAS).

Ans :

SPQ 2020

Difference between Current Account Deficit and Current Account Surplus are as follows :

Basis	Current Account Deficit	Current Account Surplus
-------	-------------------------	-------------------------

Meaning	Current account deficit arises when the value of exports of goods and services and unilateral transfers is less than the value of imports of goods and services and unilateral transfers.	Current account surplus is a situation that arises when the receipts on current account are more than the payments on current account.
Balance on Current A/c	A deficit in the current account must be settled by a surplus on the capital account.	A surplus in the current account must be matched by a deficit on the capital account.
Significance	This signifies that the nation is a borrower from the rest of the world.	This situation signifies that the nation is a lender to the rest of the world.

- 188.** Distinguish between the autonomous transactions and the accommodating transactions in the Balance of Payments. What is the significance of this distinction?

or

State the meaning of autonomous and accommodating items, under Balance of Payments of India, with the help of an example.

Ans :

SQP 2017

Autonomous transactions in the Balance of Payments (BOP) refer to those international economic activities driven by profit motives. These include items like the import and export of goods and services, as well as the inflow and outflow of capital. Autonomous transactions occur independently of a country's BOP status. In contrast, accommodating transactions aim to address disequilibrium in the BOP, such as a deficit or surplus. Governments intervene by injecting or withdrawing funds from official reserves, including gold, foreign exchange reserves, or Special Drawing Rights (SDR). These transactions are

essential for correcting imbalances in the BOP, ensuring economic stability.

- 189.** Distinguish between trade account and current account of balance of payments account.

Ans :

OD 2018

The difference between Trade account and Current Account are as follows :

Basis	Trade Account	Current Account
Meaning	It is that account which records the exports and imports of goods during a year.	It is that account which records imports and exports of goods, services and unilateral transfers during a year.
Scope	Trade account is a part of current account.	Current account includes trade account.
Balances	Balance on trade account is said to be in surplus when exports of goods is more than imports and deficit when exports of goods is less than imports.	Current account surplus arises when foreign exchange receipts are in excess of foreign exchange payments and deficit arises in case of excess of foreign exchange payment over foreign exchange receipts.
Components	It records only visible items.	It records both visible and invisible items.

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- 190.** Distinguish between autonomous and accommodating transactions of balance of payments account. Explain the significance of this distinction.

Ans :

COMP 2013

transactions.

Basis	Autonomous transactions	Accommodating transactions
Meaning	These are international economic transactions that take place for profit motive. These are independent of all other transactions in the BOP. They are not influenced by foreign exchange position of the country.	These are the transactions that take place to re-establish equilibrium in the country's balance of payments. Such transactions are essentially monetary in nature.
Equilibrium	If autonomous receipts are less than autonomous payments, balance of payments is in deficit.	These are compensation short-term capital transactions which are meant to correct a disequilibrium in the autonomous items of BOP.
Description	In the BOP, these items are called "above the line items".	In the BOP, these items are called "Below the line items".
Balancing	Deficit in BOP may be financed by depleting reserves of foreign currency or by borrowings from IMF.	Final deficit or surplus of BOP is removed with the help of accommodating items and thus help to balance the BOP.

Significance of this distinction. Autonomous transactions are the reason for the imbalance in BOP (BOP surplus or BOP deficit) which is restored through Accommodating transactions undertaken by the Central Bank of our country. Therefore, the magnitude of accommodating transactions is determined by the autonomous

CASE BASED QUESTION

191. Read the para given below and answer the questions that follow:

No single institution or organization determines the exchange rate of rupee in India at present, not even the RBI. Rather, the exchange rate of rupee with foreign currencies is determined by a combination of market factors, with the RBI only intervening in case of extreme appreciation or depreciation. But this was not always the case. Prior to the period of economic liberalization in the 1990, India followed a fixed exchange rate system. The Indian rupee was pegged to the US dollar and a basket of other currencies. In pegging, the value of a currency is fixed in a predetermined ratio to another more stable and internationally used currency or to a bunch of such currencies. The RBI ensured that the exchange rate of the rupee is fixed with respect to other currencies by playing a direct hand in their supply and demand process.

The value of a currency, just like any other commodity, is determined by its supply and demand in the market. The RBI maintained a reserve of US dollars to ensure a fixed exchange rate. When the demand for US dollars was high, its value appreciated with respect to the rupee. To counter this, RBI would pump US dollars into the market from its reserve to meet the demand and thereby bring down the appreciating value of the dollar. Similarly, if the rupee was appreciating with respect to the dollar, then to maintain the peg (fixed exchange rate) RBI would sell the rupee to buy US dollar to bring down its value.

However, RBI almost ran out of its dollar reserves in 1992 and was close to being unable to maintain the fixed exchange rate. It was during this period that sweeping economic reforms were made and the floating exchange rate was gradually adopted in India.

- The market exchange rate system in which the Central Bank actively intervenes is called as _____.
- If the exchange rate of the home currency rises, the value of exports of the economy is likely to _____.

rest of the world. The country, in this context, includes the government, private entities and citizens.

Both the Capital Account and Current Account can have deficit or surplus situations. A Surplus Capital Account means that money is flowing into the country, but these inflows reflect changes in the ownership of national assets by way of sale or borrowing.

A deficit situation in the capital account occurs when more money is flowing out of a country to acquire assets and rights abroad. It also means that though the money is going out of the country, it results in the acquisition of assets or rights.

Here is an interesting example of a capital account transaction. A foreign entity acquires a hotel chain in India. Such a transaction involves the payment of billions of dollars that helps the capital account to become surplus. The country will then receive inflows of billions of dollars but this also means that a domestic entity will lose ownership of the hotel chain. The surplus account will not be against any goods or services supplied by a domestic entity to a foreign entity that can qualify as income or payment of a fee against delivery of some service.

- (i) Following is not a component of current account:
- Export and import of goods.
 - Export and import of services.
 - Investments to and from abroad.
 - Unilateral transfers to and from abroad.
- (ii) Other things remaining the same, when in a country the market price of foreign currency falls, National Income is likely:
- To rise
 - To fall
 - To rise or to fall
 - To remain unaffected
- (iii) Choose the correct pair of statements from the statements given in column I and II:

	Column I		Column II
1.	Depreciation of domestic currency	A.	value of foreign currency in terms of domestic currency.

2.	Devaluation	B.	reduction in the value of domestic currency by the government.
3.	Exchange Rate	C.	exchange rate determined by the government.
4.	Fixed Exchange Rate	D.	fall in the value of domestic currency in the market.

- 1-A
- 2-B
- 3-C
- D-4

- (v) What will be the value of imports, if a country has a trade deficit of ₹3000 crore and the value of exports is ₹12,000 crore?
- ₹15,000 crore
 - ₹9,000 crore
 - ₹12,000 crore
 - ₹10,000 crore

Ans :

- (c) Investments to and from abroad.
- (b) To fall
- (b) 2-B
- (a) ₹15,000 crore

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(buying/selling) foreign exchange from its reserves.

Ans :

- (i) (a) B, A, D, C
- (ii) (d) Both (a) and (b)
- (iii) Appreciated
- (iv) Increase selling

193. Read the para given below and answer the questions that follow:

India posted its first current account surplus of 1.7% of GDP in April-December 2020 quarter after nine years. The last time we witnessed a surplus was in 2007. Many analysts and trade pundits welcome this development as it can give a much-needed shot in the arm to investor confidence in the country as well as the Indian currency.

A current account surplus has a direct positive impact on the rupee. The current account reflects all payments between countries for goods, services, dividends and interests. A surplus in the current account means that the country is expected to receive payment in rupees. This means other countries are likely to buy rupee and sell foreign currencies. This means the rupee could appreciate in the near future. While a current account surplus is welcome, it is important to understand how the surplus has been achieved. A current account surplus occurs partly due to an increase in exports. This leads to a stronger economy and an increase in consumer spending. On the other hand, it could also be a result of weak domestic demand. This could result in lower consumer spending and decrease in imports. Meaning, exports did not rise, but imports fell. Hence, analysts in some quarters feel that a surplus indicates a weak economic growth in the country.

Some analysts feel that a current account surplus is not a cause for celebration as it reflects weak investment demand in the country. This directly impacts the pickup of imports from the country. In the last four months itself, imports fell by 16.33% due to lower gold and oil imports. This reflects poorly on the investment opportunities in the country.

- (i) _____ Account transactions bring about a change in the current level of a country's income.
- (ii) Identify the incorrect statement from the following :

- (a) Capital account is a stock concept
- (b) Capital transactions bring about a change in the capital stock of a country.
- (c) Capital account includes portfolio investments
- (d) Capital account surplus arises when debit items are more than credit items.

(iii) International transactions which take place due to some economic motive are called _____.

- (a) Accommodating transactions.
- (b) Autonomous transactions.
- (c) Both (a) and (b)
- (d) Neither (a) nor (b)

(iv) Match the following:

	Column I		Column II
1.	Accommodating transactions	A.	Inflows of foreign exchange.
2.	Balance of trade	B.	One way transaction.
3.	Unrequited transactions	C.	Difference between exports and imports of goods.
4.	Credit side	D.	Transactions done to cover the deficit or surplus in BOP.

- (a) A, B, C, D
- (b) A, C, B, D
- (c) D, B, C, A
- (d) D, C, B, A

Ans :

- (i) Current
- (ii) (d) Capital account surplus arises when debit items are more than credit items.
- (iii) (b) Both (a) and (b)
- (iv) (d) D, C, B, A

194. Read the para given below and answer the questions that follow:

While a capital account deals with the change in ownership of a country's assets, the current account reflects the change in a country's net income. These two accounts capital and current together form the balance of payments or BOP of a country. When we refer to balance of payments, this refers to the record of all commercial transactions between a country along with the

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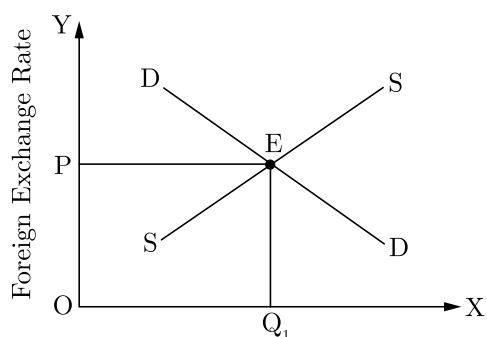
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rates. It is characterised by some intervention in exchange rate movement by monetary authorities. However, intervention is discretionary.

- 181.** How is exchange rate determined in the foreign exchange market? Explain.

Ans :

FOREIGN 2005



Demand for and Supply of Foreign Exchange

The foreign exchange rate is established through the interaction of demand and supply forces in the foreign exchange market, applying the principles of demand-supply theory. There exists an inverse relationship between the exchange rate and the demand for foreign currency as the rate rises, demand decreases. Conversely, the relationship between the exchange rate and the supply of foreign currency is direct, meaning a higher rate encourages greater supply. Consequently, the demand curve for foreign currency slopes downward, while the supply curve slopes upward. The equilibrium exchange rate is determined at the intersection point (E) of these two curves, as illustrated graphically.

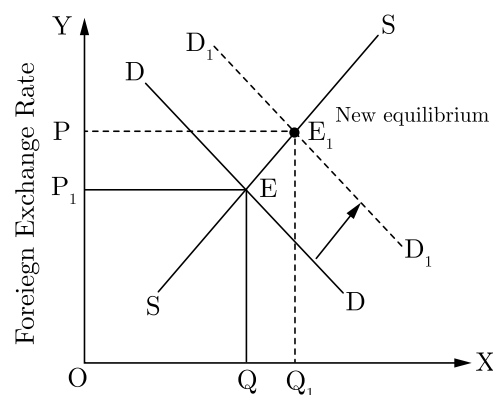
- 182.** Visits to foreign countries for sight-seeing etc. by the people of India is on the rise. What will be its likely impact on foreign exchange rate and how?

Ans :

SQP 2009

When Indian citizens travel abroad for sightseeing, the demand for foreign exchange increases. This shift causes the demand curve for foreign exchange (D_1D_1) to move rightward. If the supply of foreign exchange remains constant, the increased demand results in a new equilibrium at a higher exchange rate (E_1). Consequently, the value of the Indian rupee depreciates relative to foreign currencies. This depreciation reflects a higher cost of foreign exchange, driven by the surge in demand without a corresponding increase in supply, making foreign travel and imports more expensive for

Indian citizens.



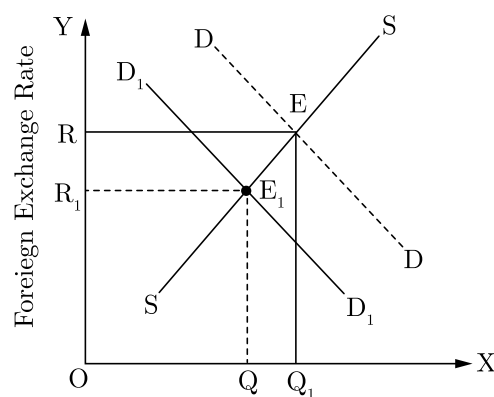
Demand for and Supply of Foreign Exchange (Units)

- 183.** Government takes measures to restrict autonomous imports of gold. Explain the economic values desired to be achieved from this.

Ans :

DELHI 2011

Government initiatives to limit gold imports reduce the demand for foreign currency, shifting the demand curve leftward from DD to D_1D_1 . This decrease in demand leads to a new equilibrium at point E_1 , where the exchange rate drops from OR to OR_1 . The decline in the exchange rate signifies a lower price for foreign currency relative to the domestic currency, resulting in an appreciation of the domestic currency. This appreciation reflects the reduced necessity for foreign exchange, as restricted gold imports lessen the outflow of domestic currency to purchase foreign goods, stabilizing the currency's external value.



Demand for and Supply of Foreign Exchange (Units)

In the Diagram, E_1 is the new equilibrium point where the exchange rate decreases from OR to OR_1 .

CHAPTER 6

INDIAN ECONOMY ON THE EVE OF INDEPENDENCE

SUMMARY

1. INTRODUCTION

The Indian economy before independence was characterized by backwardness, stagnation, and colonial exploitation. The British policies were primarily aimed at promoting the interests of their home country.

2. FEATURES OF THE INDIAN ECONOMY ON THE EVE OF INDEPENDENCE

The features of the Indian economy on the eve of independence are as follows :

2.1 Agrarian Economy

Agriculture was the primary source of livelihood, with about 85% of the population dependent on it. The agricultural sector was stagnant and backward due to:

Land tenure systems: Zamindari, Mahalwari, and Ryotwari systems led to high exploitation of peasants.

Low productivity: Due to traditional methods, lack of irrigation, and negligible investment in infrastructure.

Commercialization of agriculture: Farmers were forced to grow cash crops (indigo, cotton) to serve British industries rather than food crops.

2.2 Industrial Backwardness

India lacked a sound industrial base. De industrialization occurred as traditional handicrafts were systematically destroyed by British policies. Few modern industries like cotton, jute, and iron and steel (TISCO in 1907) were set up by Indian entrepreneurs. There was a lack of capital, infrastructure, and technical expertise.

2.3 Low Level of Infrastructure

Infrastructure was developed primarily to

serve British interests (e.g., railways, ports). The development of railways helped the British exploit natural resources and transport finished goods from Britain to India. Basic infrastructure like health, education, and electricity was grossly underdeveloped.

2.4 Foreign Trade

India became an exporter of primary products (raw materials like cotton and jute) and an importer of finished goods.

Trade policies were formulated to make India a supplier of raw materials to British industries and a consumer of British manufactured goods.

This resulted in the drain of India's wealth to Britain.

2.5 Demographic Condition

India had a high birth rate and death rate, leading to low life expectancy (44 years in 1947). Literacy rate was very low (16%). Public health facilities were inadequate, and the prevalence of diseases like plague and malaria was high.

2.6 Poverty and Unemployment

A large proportion of the population lived below the poverty line. Lack of industrialization and poor agricultural productivity led to widespread unemployment and underemployment.

2.7 Lack of Social Infrastructure

Educational and health facilities were underdeveloped. There were very few institutions for higher education. Female literacy and gender equality were extremely low.

2.8 Economic Drain

The British drained India's wealth through: Export of raw materials and import of finished goods. Salaries and pensions of British officials paid from Indian revenue. Profits from British companies operating in India.

3. IMPORTANT TERMS**3.1 De-industrialization**

Decline of traditional handicraft industries due to competition from British goods.

3.2 Drain of Wealth

Continuous transfer of India's wealth to Britain without adequate returns.

3.3 Commercialization of Agriculture

Shift in farming from food crops to cash crops to serve British industries.

MULTIPLE CHOICE QUESTION

- In which year did the British introduce the Railways in India?
(a) 1805 (b) 1855
(c) 1850 (d) 1860

Ans : OD 2024

(c) 1850

- When did the second stage of demographic transition begin?
(a) After 1921
(b) Before 1921
(c) From 1921
(d) None of the above

Ans : SQP 2024

(a) After 1921

- Who among the following economists did not provide an estimate of the national and per capita income during the colonial period?
(a) Dadabhai Naoroji
(b) V.K.R.V. Rao
(c) Horace Secrist
(d) Findlay Shirras

Ans : DELHI 2023

(c) Horace Secrist

- During British rule, the public sector was limited to the following areas of operation:
(a) Railways
(b) Power generation
(c) Both (a) and (b)
(d) None of the above

Ans : OD 2010

(c) both (a) and (b)

- The primary cause of stagnation in agriculture was:
(a) Systems of land settlement
(b) Commercialization of agriculture
(c) Zamindari system
(d) All of the above

Ans : COMP 2021

(d) all of the above

- The Indian economy on the eve of Independence was characterized by the following features:
(a) Colonial
(b) Stagnant
(c) Backward
(d) All of the above

Ans : OD 2001

(d) all of the above

- Which year was considered as the year of the great divide?
(a) 1921
(b) 1947
(c) 1951
(d) 1931

Ans : FOREIGN 2020

(a) 1921

- During British rule, the export surplus was utilized to:
(a) Import invisible items.
(b) Make payments for expenses incurred by an office setup by the colonial government in Britain.
(c) Meet the expenses on War fought by the British government.
(d) All of the above

Ans : SQP 2019

(d) all of the above

- The first official census was conducted in the year
(a) 1921
(b) 1951
(c) 1881
(d) 1851

Ans : OD 2014

(c) 1881

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10. Occupational structure refers to:

- (a) The total workforce of a country
- (b) The distribution of working persons across different industries and sectors
- (c) Population of a country
- (d) None of the above

Ans :

COMP 2009

(b) the distribution of working persons across different industries and sectors

11. What was the nature of the Indian economy on the eve of independence?

- (a) Stagnant
- (b) Backward
- (c) Underdeveloped
- (d) All of these

Ans :

DELHI 2017

(d) All of these

12. Manufacturing activity is included in which of the following sectors?

- (a) Primary
- (b) Tertiary
- (c) Secondary
- (d) All of these

Ans :

OD 2015

(c) Secondary

13. What was the major occupation in India on the eve of independence?

- (a) Industry
- (b) Services
- (c) Agriculture
- (d) None of these

Ans :

FOREIGN 2011

(c) Agriculture

14. What was the average life expectancy at birth in India during the time of Independence?

- (a) 44 years
- (b) 50 years
- (c) 60 years
- (d) All of these

Ans :

SQP 2002

(a) 44 years

15. Where was the first iron and steel company in India established?

- (a) Kolkata
- (b) Jamshedpur
- (c) Patna
- (d) Ranchi

Ans :

OD 2000

(b) Jamshedpur

16. During colonial period, estimates of _____ on national income and per capita income were considered very significant. (Fill up the blank with correct alternative)

- (a) Dadabhai Naoroji
- (b) William Digby
- (c) V.K.R.V. Rao
- (d) R.C. Desai

Ans :

OD 2021

(c) V.K.R.V. Rao

17. During the second half of the 19th century, the cotton textile mills only dominated by Indian entrepreneurs were located only in _____ (Fill up the blank with correct alternative)

- (a) Bengal
- (b) Maharashtra
- (c) Calcutta
- (d) Madhya Pradesh

Ans :

OD 2021

(b) Maharashtra

18. What percentage of country's total population was engaged in agriculture during the time of independence?

- (a) 55%
- (b) 65%
- (c) 75%
- (d) 85%

Ans :

DELHI 2018

(c) 75%

19. What share of Indian workforce was engaged in services, during the colonial period.

- (a) 10%
- (b) 20%
- (c) 25%
- (d) 30%

Ans :

DELHI 2018

(a) 10%

20. What was the infant mortality rate in India during the colonial period?

- (a) 218 per thousand
- (b) 118 per thousand
- (c) 150 per thousand
- (d) 250 per thousand

Ans :

OD 2018

- (c) Export and import trade was liberalised to encourage Indian industrial growth.
- (d) Indian exports were directed towards developing infrastructure and reducing poverty.

Ans : COMP 2003

(b) The surplus created during trade primarily enriched Britain and drained India's wealth. Export surplus benefited Britain, leading to a massive drain of Indian wealth, while trade policies restricted India's economic progress.

- 37.** During British colonial rule in India, which sector contributed the largest share of the workforce, and what was the proportion of workers employed in that sector?
- (a) Services sector, employing around 50-60% of the workforce.
 - (b) Manufacturing sector, employing 30-35% of the workforce.
 - (c) Agricultural sector, employing 70-75% of the workforce.
 - (d) Infrastructure development sector, employing 40-45% of the workforce.

Ans : DELHI 2007

(c) Agricultural sector, employing 70-75% of the workforce.

The agricultural sector dominated the workforce, with about 70-75% engaged in farming, while manufacturing and services had a much smaller share.

- 38.** What was one of the primary goals of the two-fold policy pursued by the British colonial government in India, and how did it impact the country?
- (a) Promote industrial growth in India to make it self-reliant.
 - (b) Reduce land disputes by introducing modern revenue systems.
 - (c) Turn India into a market for British finished goods and a supplier of raw materials.
 - (d) Create a balance between agricultural and industrial development.

Ans : OD 2006

(c) Turn India into a market for British finished goods and a supplier of raw materials.

The British used India as a supplier of raw materials for their industries and as a market for finished British products, harming India's economy.

- 39.** How did the policies of the British colonial government affect the traditional handicraft industries of India?

- (a) They encouraged modernisation and export of Indian handicrafts.
- (b) They led to a decline due to competition from British manufactured goods.
- (c) They created a system to subsidise and promote handicraft production.
- (d) They shifted the focus to small-scale industries producing luxury goods.

Ans : FOREIGN 2010

(b) They led to a decline due to competition from British manufactured goods.

Indian handicrafts declined as British goods, often sold at cheaper prices, dominated the Indian market, and local industries were neglected.

- 40.** Which of the following accurately describes the nature and purpose of infrastructure development, such as railways and ports, by the British colonial government in India?

- (a) Infrastructure was built to improve India's economy and reduce poverty.
- (b) It was developed to facilitate the efficient exploitation of India's resources for Britain.
- (c) The focus was on rural development and irrigation to benefit Indian farmers.
- (d) Infrastructure development helped the Indian manufacturing sector grow significantly.

Ans : SQP 2004

(b) It was developed to facilitate the efficient exploitation of India's resources for Britain.

The infrastructure developed under British rule, such as railways and ports, was primarily intended to transport raw materials to Britain and finished goods to Indian markets.

- 41.** What was the impact of the zamindari system introduced by the British colonial government on the Indian agricultural sector?

- (a) It boosted productivity and reduced land disputes.
- (b) It resulted in agricultural stagnation and low productivity.
- (c) It improved the living standards of small farmers.
- (d) It abolished exploitative practices in revenue collection.

Ans : OD 2012

(a) Drain

The large export surplus was not beneficial to India but resulted in a drain of wealth to Britain.

30. Infrastructure such as railways, ports, and telegraphs was developed during colonial rule to serve _____ interests.

- (a) Local
- (b) Indian
- (c) British
- (d) Industrial

Ans :

DELHI 2015

(c) British

Infrastructure was built primarily to benefit British economic and administrative needs.

31. At the time of independence, India faced enormous _____ challenges due to British colonial rule.

- (a) Cultural
- (b) Political
- (c) Social and economic
- (d) Educational

Ans :

OD 2015

(c) Social and economic

The two-century-long colonial rule left India with significant social and economic challenges.

32. The restrictive trade policies of the colonial government were aimed at benefiting _____ industries.

- (a) Local
- (b) Indian
- (c) British
- (d) Global

Ans :

OD 2004

(c) British

These policies ensured that Indian raw materials and markets were used to support British industries.

33. Social development indicators like literacy rates and public health facilities during colonial rule were _____.

- (a) Encouraging
- (b) Advanced
- (c) Discouraging
- (d) Neutral

Ans :

FOREIGN 2007

(c) Discouraging

Colonial policies neglected social development, resulting in poor literacy levels, inadequate public health facilities, and low life expectancy.

34. Which of the following statements correctly describes the economic strategies pursued by the British colonial government in India and their impact on the country's economy?

- (a) Agricultural productivity improved significantly under British rule.
- (b) India was turned into a supplier of raw materials and a consumer of British manufactured goods.
- (c) The colonial government heavily invested in developing indigenous industries.
- (d) The focus of agricultural commercialisation was on food crops to meet domestic needs.

Ans :

OD 2015

(b) India was turned into a supplier of raw materials and a consumer of British manufactured goods.

India was reduced to exporting raw materials and importing British goods, which weakened its economy and industries.

35. What was the primary effect of the commercialisation of agriculture introduced by the British in India during colonial rule?

- (a) It led to a rise in food crop production and food security.
- (b) It caused a shift in cropping patterns from food crops to commercial crops for export.
- (c) It abolished systems like the zamindari system, benefiting small-scale farmers.
- (d) It allowed Indian farmers to modernise agricultural practices successfully.

Ans :

OD 2017

(b) It caused a shift in cropping patterns from food crops to commercial crops for export.

The British encouraged the production of commercial crops like cotton and indigo, reducing food crop cultivation.

36. Which of the following best represents the nature of India's foreign trade under British rule, especially concerning export surplus?

- (a) India's export surplus contributed to significant economic growth within the country.
- (b) The surplus created during trade primarily enriched Britain and drained India's wealth.

(a) 218 per thousand

21. In which year was the planning commission set up? (Choose the correct alternative)

- (a) 1948
- (b) 1956
- (c) 1950
- (d) 1958

Ans :

OD 2019

(c) 1950

22. During the British rule in India, Indian agricultural output witnessed stagnation due to _____.

(Choose the correct alternative)

- (a) Decline in handicrafts
- (b) Drain of Indian wealth
- (c) Land settlement
- (d) Introduction of railways

Ans :

OD 2008

(c) Land settlement

23. Under the British Rule, commercialization of agriculture resulted in shifting of agricultural production from _____ crops to _____ crops.

- (a) Cash, food
- (b) Cotton, jute
- (c) Food, cash]
- (d) Jute, food

Ans :

OD 2015

(d) Jute, food

24. The colonial government followed policies to reduce India to an exporter of _____ for British industries.

- (a) Finished goods
- (b) Manufactured items
- (c) Raw materials
- (d) Precious metals

Ans :

FOREIGN 2010

(c) Raw materials

The colonial government's policy aimed to export raw materials from India to Britain to fuel their industries.

25. After 1921, India entered the _____ stage of demographic transition.

- (a) First
- (b) Second
- (c) Third
- (d) Final

Ans :

COMP 2016

(b) Second

The second stage of demographic transition in India began post-1921, marked by changes in population dynamics.

NODIA

26. During the colonial period, the cropping pattern in India shifted from food crops to _____ crops due to the commercialization of agriculture.

- (a) Subsistence
- (b) Cash
- (c) Industrial
- (d) Non-edible

Ans :

SQP 2012

(b) Cash

The commercialization of agriculture led to a focus on cash crops instead of food crops to serve British economic interests.

27. The agricultural sector in colonial India accounted for approximately _____ of the workforce.

- (a) 30-35%
- (b) 50-55%
- (c) 70-75%
- (d) 85-90%

Ans :

COMP 2017

(c) 70-75%

The agricultural sector dominated the occupational structure during the colonial period, employing the majority of the workforce.

28. The colonial government's restrictive policies adversely affected India's _____ trade.

- (a) Domestic
- (b) Foreign
- (c) Regional
- (d) Local

Ans :

DELHI 2014

(b) Foreign

Restrictive policies disrupted India's foreign trade, obtaining a British monopoly over exports and imports.

29. The generation of a large export surplus during the colonial period ultimately led to the _____ of Indian wealth.

- (a) Drain
- (b) Preservation
- (c) Growth
- (d) Utilization

Ans :

COMP 2014

(b) It resulted in agricultural stagnation and low productivity.

The zamindari system caused stagnation by prioritising revenue collection over agricultural improvement, worsening the plight of farmers.

42. Which of the following best explains the state of social development indicators such as literacy levels, health facilities, and life expectancy in India during British rule?

- (a) Social indicators improved significantly due to British reforms.
- (b) Poor literacy and inadequate public health facilities kept life expectancy low.
- (c) Mortality rates dropped due to extensive healthcare initiatives.
- (d) Public education and health systems made India socially advanced.

Ans :

COMP 2022

(b) Poor literacy and inadequate public health facilities kept life expectancy low.

Social indicators such as literacy and health facilities reoded poor under British rule, contributing to low life expectancy and high mortality rates.

43. What was the occupational structure of India during the British colonial period, and how did it reflect the state of the economy?

- (a) It was balanced, with equal contribution from agriculture, manufacturing, and services.
- (b) Agriculture dominated, employing 70-75% of the workforce, while other sectors lagged.
- (c) Manufacturing and services employed the majority, indicating industrial growth.
- (d) Infrastructure and education sectors provided significant employment opportunities.

Ans :

DELHI 2016

(b) Agriculture dominated, employing 70-75% of the workforce, while other sectors lagged.

Agriculture employed the majority of the workforce, with minimal contributions from manufacturing and services, reflecting an underdeveloped economy.

44. Which of the following statements about the Indian economy during the colonial period is incorrect? Carefully analyze each option based on historical facts::

- (a) Indian economy was flourishing before the advent of British.
- (b) British developed the railway system in India for their own benefit.
- (c) India had a sound industrial base under the British.
- (d) India's foreign trade throughout the colonial period was marked by a large export surplus.

Ans :

OD 2008

(c) India had a sound industrial base under the British.

45. Which of the following is NOT true about foreign trade during the colonial rule? (Choose the correct alternative)

- (a) India suffered from large trade deficit.
- (b) Restrictive policies of commodity production, were followed.
- (c) Britain Obtained a monopoly control over India's exports and imports.
- (d) India became an exporter of primary products and an importer of finished consumer goods.

Ans :

OD 2023

(a) India suffered from large trade deficit.

46. From the set of the events given in Column-I and the corresponding year in Column-II, Choose the incorrect pair:

	Column-I		Column-II
(A)	Introduction of railways in India	(i)	1850
(B)	Incorporation of TISCO	(ii)	1807
(C)	First Official Census of India	(iii)	1881
(D)	Opening of Suez Canal	(iv)	1869

Alternatives:

- (a) A-(i)
- (b) B-(ii)
- (c) C-(iii)
- (d) D-(iv)

Ans :

OD 2003

(b) B-(ii)

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Ans :

OD 2008

(a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.

59. **Assertion :** GDP and per capita income of the country were very low during the British rule

Reason : Progress in social infrastructure and not economic infrastructure contributed greatly towards it.

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
 (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
 (c) Assertion is true but Reason is false.
 (d) Assertion is false but Reason is true.

Ans :

OD 2015

(c) Assertion is true but Reason is false.

60. **Assertion :** India could not develop a sound Industrial-base during the British rule.

Reason : Britishers followed restrictive trade policies, which strengthened Indian handicraft industries.

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
 (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
 (c) Assertion is true but Reason is false.
 (d) Assertion is false but Reason is true.

Ans :

COMP 2019

(c) Assertion is true but Reason is false.

STATEMENT BASED QUESTIONS

61. **Statement 1 :** Agricultural productivity was very low during the British Rule.

Statement 2 : In absolute terms, there was growth in agricultural sector due to expansion of aggregate area under cultivation.

- (a) Statement 1 is true & Statement 2 is false.
 (b) Statement 1 is false & Statement 2 is true.
 (c) Both statements 1 & 2 are true.
 (d) Both statements 1 & 2 are false.

Ans :

FOREIGN 2010

(c) Both statements 1 & 2 are true.

62. **Statement 1 :** The colonial government developed infrastructure like railways and ports to improve the living standards of Indian people.

Statement 2 : The infrastructure was primarily developed to serve British economic and administrative interests.

- (a) Statement 1 is true, and Statement 2 is false.
 (b) Statement 1 is false, and Statement 2 is true.
 (c) Both Statement 1 and Statement 2 are true.
 (d) Both Statement 1 and Statement 2 are false.

Ans :

COMP 2014

(b) Statement 1 is false, and Statement 2 is true.

63. **Statement 1 :** India's world-famous handicraft industries declined during colonial rule due to the introduction of modern industrial techniques in India.

Statement 2 : The colonial government's two-fold policy aimed to reduce India to an exporter of raw materials and a market for British finished goods.

- (a) Statement 1 is true, and Statement 2 is false.
 (b) Statement 1 is false, and Statement 2 is true.
 (c) Both Statement 1 and Statement 2 are true.
 (d) Both Statement 1 and Statement 2 are false.

Ans :

SPQ 2012

(b) Statement 1 is false, and Statement 2 is true. India's handicraft industries declined not due to modern industrial techniques but because of the colonial government's two-fold policy. This policy reduced India to an exporter of raw materials and a market for British goods.

64. **Statement 1 :** The commercialization of agriculture during the colonial period led to a shift from food crops to cash crops.

Statement 2 : This shift benefited Indian farmers by increasing their income and improving their economic conditions.

- (a) Statement 1 is true, and Statement 2 is false.
 (b) Statement 1 is false, and Statement 2 is true.
 (c) Both Statement 1 and Statement 2 are true.
 (d) Both Statement 1 and Statement 2 are false.

Ans :

OD 2017

(a) Statement 1 is true, and Statement 2 is false. The commercialization of agriculture led to a shift from food crops to cash crops, but this change primarily benefited British economic interests rather than Indian farmers, who faced exploitation and economic distress.

(a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.

53. Assertion : Development of railways enhanced commercialization of agriculture.

Reason : The British government developed infrastructure in India to serve their own colonial interests.

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
- (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

FOREIGN 2001

(a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.

54. Assertion : On the eve of Independence, both birth rate and death rate were very high.

Reason : Life Expectancy was also high at 68 years compared to the present 44 years.

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
- (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

SQP 2000

(c) Assertion is true but Reason is false.

55. Assertion : The discriminatory tariff policy followed by the British led to the decline of Indian handicrafts.

Reason : The composition of exports and imports of the Indian economy made it backward and stagnant.

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
- (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

OD 2002

(b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.

56. Assertion : Indian economy, under the British Colonial rule, rooted fundamentally agrarian.

Reason : Commercialization of agriculture, land settlement system and partition of the country adversely affected Indian agriculture.

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
- (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

COMP 2003

(a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.

57. Assertion : The large import surplus generated during the colonial period came at a huge cost to the Indian economy.

Reason : This created scarcity of essential commodities in the domestic market and did not result in any flow of gold and silver into our country.

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
- (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

DELHI 2006

(d) Assertion is false but Reason is true.

58. Assertion : During the British rule, in agriculture, low productivity resulted in low production.

Reason : Owners of the soil were different from the tillers of the soil who had no incentive to increase land productivity.

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
- (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

OD 2020

(b) By obtaining monopoly control over imports and exports.

- 72. Statement 1 :** The zamindari system introduced by the colonial government increased agricultural productivity.

Statement 2 : It prioritized revenue collection over the welfare of cultivators.

- (a) Statement 1 is true, and Statement 2 is false.
 (b) Statement 1 is false, and Statement 2 is true.
 (c) Both Statement 1 and Statement 2 are true.
 (d) Both Statement 1 and Statement 2 are false.

Ans :

COMP 2009

(b) Statement 1 is false, and Statement 2 is true. The zamindari system caused stagnation in agriculture due to its focus on revenue collection, neglecting cultivators' welfare and productivity.

- 73. Statement 1 :** The second stage of demographic transition in India began before 1921.

Statement 2 : This stage was marked by changes in population growth dynamics.

- (a) Statement 1 is true, and Statement 2 is false.
 (b) Statement 1 is false, and Statement 2 is true.
 (c) Both Statement 1 and Statement 2 are true.
 (d) Both Statement 1 and Statement 2 are false.

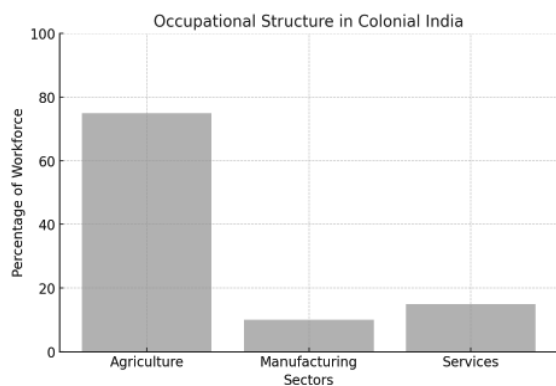
Ans :

FOREIGN 2023

(b) Statement 1 is false, and Statement 2 is true. The second stage of demographic transition began after 1921, indicating shifts in population growth due to changes in mortality and fertility rates.

GRAPH BASED QUESTIONS

- 74.** Read the following bar graph



The bar graph shows the percentage of the workforce employed in various sectors during colonial India. Which sector accounted for the largest share of the workforce?

- (a) Agriculture
 (b) Manufacturing
 (c) Services
 (d) Trade

Ans :

SQP 2005

- (a) Agriculture

The bar graph clearly shows that agriculture accounted for 75% of the workforce, which is significantly higher compared to manufacturing (10%) and services (15%). This highlights the agrarian nature of India's economy during the colonial period.

- 75.** Read the following bar graph



The bar graph shows India's trade composition during the colonial period. Which component had the highest percentage share?

- (a) Imports
 (b) Exports
 (c) Domestic Trade
 (d) Services

Ans :

OD 2009

- (b) Exports

The bar graph indicates that exports accounted for 80% of India's trade, which is significantly higher than imports at 20%. This reflects the colonial policy of generating a large export surplus to benefit British industries.

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65. Statement 1 : The agricultural sector in colonial India accounted for 70-75% of the workforce.

Statement 2 : The manufacturing and services sectors had an equal share of the working workforce.

- (a) Statement 1 is true, and Statement 2 is false.
- (b) Statement 1 is false, and Statement 2 is true.
- (c) Both Statement 1 and Statement 2 are true.
- (d) Both Statement 1 and Statement 2 are false.

Ans :

OD 2015

(a) Statement 1 is true, and Statement 2 is false. The agricultural sector dominated employment, while the manufacturing and services sectors did not have an equal share, with manufacturing at 10% and services at 15-20%.

66. Statement 1 : Commercialization of agriculture during colonial rule led to higher food grain production in India.

Statement 2 : It caused a shift in cropping patterns towards cash crops.

- (a) Statement 1 is true, and Statement 2 is false.
- (b) Statement 1 is false, and Statement 2 is true.
- (c) Both Statement 1 and Statement 2 are true.
- (d) Both Statement 1 and Statement 2 are false.

Ans :

FOREIGN 2004

(b) Statement 1 is false, and Statement 2 is true. Commercialization of agriculture did not result in higher food grain production but shifted cropping patterns to cash crops, often causing food shortages.

67. Statement 1 : The restrictive trade policies of the colonial government obtained British monopoly over India's imports and exports.

Statement 2 : These policies boosted India's domestic industries.

- (a) Statement 1 is true, and Statement 2 is false.
- (b) Statement 1 is false, and Statement 2 is true.
- (c) Both Statement 1 and Statement 2 are true.
- (d) Both Statement 1 and Statement 2 are false.

Ans :

SQP 2007

(a) Statement 1 is true, and Statement 2 is false. The colonial trade policies ensured British control over imports and exports, leading to the decline of Indian domestic industries instead of boosting them.

68. Statement 1 : The literacy rate and public health facilities in colonial India were encouraging.

Statement 2 : Social development indicators like life expectancy and mortality rates were poor

during colonial rule.

- (a) Statement 1 is true, and Statement 2 is false.
- (b) Statement 1 is false, and Statement 2 is true.
- (c) Both Statement 1 and Statement 2 are true.
- (d) Both Statement 1 and Statement 2 are false.

Ans :

OD 2018

(b) Statement 1 is false, and Statement 2 is true. The colonial government neglected social development, leading to poor literacy rates, inadequate health facilities, and low life expectancy.

69. Statement 1 : The British colonial policies aimed to protect India's economic interests.

Statement 2 : These policies were more focused on promoting British economic interests.

- (a) Statement 1 is true, and Statement 2 is false.
- (b) Statement 1 is false, and Statement 2 is true.
- (c) Both Statement 1 and Statement 2 are true.
- (d) Both Statement 1 and Statement 2 are false.

Ans :

DELHI 2022

(b) Statement 1 is false, and Statement 2 is true. British colonial policies were designed to promote the economic interests of Britain, often at the expense of India's economic development.

70. Statement 1 : India faced enormous social and economic challenges at the time of independence due to the long British colonial rule.

Statement 2 : These challenges were resolved immediately after independence.

- (a) Statement 1 is true, and Statement 2 is false.
- (b) Statement 1 is false, and Statement 2 is true.
- (c) Both Statement 1 and Statement 2 are true.
- (d) Both Statement 1 and Statement 2 are false.

Ans :

OD 2005

(a) Statement 1 is true, and Statement 2 is false. India faced significant challenges at independence, but these issues required extensive efforts and time to resolve, not immediate solutions.

71. The colonial government's policies ensured Britain obtained monopoly control over India's imports and exports, adversely affecting the country's trade structure.

How did the colonial government affect India's trade?

- (a) By encouraging local industries
- (b) By obtaining monopoly control over imports and exports
- (c) By reducing tariffs on Indian exports
- (d) By promoting free trade

ASSERTION AND REASON

- 47. Assertion :** The policies of the colonial government brought a fundamental change in the structure of the Indian economy.

Reason : The economic policies pursued by the colonial government favoured the promotion of their economic interest.

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
- (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans : FOREIGN 2019

(a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.

- 48. Assertion :** During the pre-British period, the land settlement system was one of the reasons for stagnation in agriculture.

Reason : Though, a large proportion of the population was dependent on agriculture, the country was not self-sufficient in food.

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
- (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans : SQP 2008

(b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.

- 49. Assertion :** India's foreign trade was restricted only to Great Britain.

Reason : India became an exporter of primary products like jute, Indigo etc.

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
- (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.

- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans : OD 2020

(d) Assertion is false but Reason is true.

- 50. Assertion :** Lack of Capital Goods industry hindered the industrialisation in India.

Reason : This was done to ensure that India was not dependent on any country for the supply of Capital goods and heavy equipment.

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
- (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans : COMP 2011

(c) Assertion is true but Reason is false.

- 51. Assertion :** During the British rule, there was a huge export surplus due to excess exports.

Reason : The British government obtained monopoly control over India's foreign trade and used this export surplus for India's development.

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
- (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans : DELHI 2021

(c) Assertion is true but Reason is false.

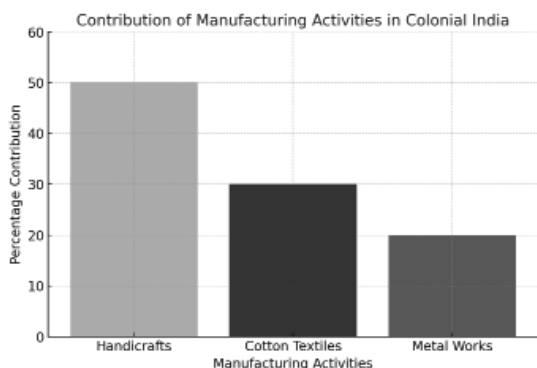
- 52. Assertion :** The public sector remained confined to some departmental undertakings like railways, communications etc.

Reason : The restricted growth of the public sector was a drawback for the industrial sector.

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
- (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans : OD 2013

76. Read the following bar graph



The bar graph shows the contribution of various manufacturing activities in colonial India. Which activity contributed the most to the manufacturing sector?

- (a) Cotton Textiles
- (b) Handicrafts
- (c) Metal Works
- (d) Silk Textiles

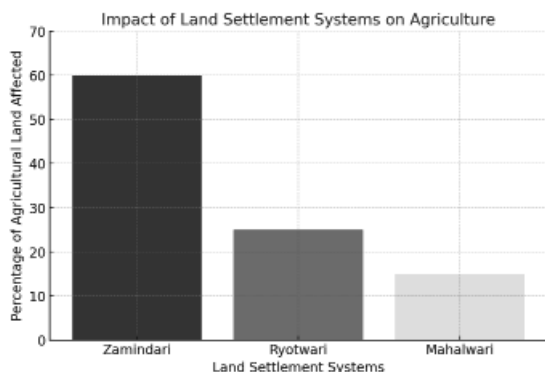
Ans :

COMP 2022

- (b) Handicrafts

The bar graph shows that handicrafts had the highest contribution of 50%, followed by cotton textiles (30%) and metal works (20%).

77. Read the following bar graph



The bar graph depicts the impact of land settlement systems on agriculture. Which system affected the largest percentage of agricultural land?

- (a) Zamindari System
- (b) Ryotwari System
- (c) Mahalwari System
- (d) Permanent Settlement

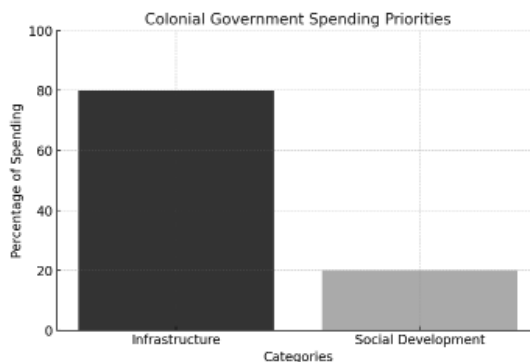
Ans :

DELHI 2018

- (a) Zamindari System

The Zamindari system affected 60% of agricultural land, making it the most impactful, as shown in the bar graph.

78. Read the following bar graph



The bar graph shows the colonial government's spending priorities. Which category received the highest percentage of spending?

- (a) Infrastructure
- (b) Social Development
- (c) Public Health
- (d) Education

Ans :

OD 2023

- (a) Infrastructure

The bar graph indicates that 80% of the spending was on infrastructure, compared to only 20% on social development, highlighting the colonial government's focus on economic interests rather than societal welfare.

PASSAGE BASED QUESTION

79. India's economy during the colonial period was characterised by various manufacturing activities, including handicrafts, cotton and silk textiles, and metal works, but agriculture reoded the od source of livelihood.

What was the primary source of livelihood in India during the colonial period?

- (a) Handicrafts
- (b) Agriculture
- (c) Metal works
- (d) Textile production

Ans :

SQP 2019

- (b) Agriculture

- (i) Predominance of Agricultural sector over manufacturing and service sector : The agricultural sector accounted for the largest share of workforce, which usually reoded at a high of 70-75%, while the manufacturing and the service sectors accounted for only 10% and 15-20% respectively.
- (ii) Regional variation.
 - (a) Though agricultural sector was the major sector in terms of share of workforce absorbed in it, still there were regional variations.
 - (b) Parts of then Madras Presidency (comprising states of Tamil Nadu, Andhra Pradesh, Kerala, Karnataka), Bombay and Bengal witnessed a decline in the workforce in agricultural sector and showed an increase in the workforce in manufacturing and service sectors.
 - (c) However, there had been an increase in the share of workforce in agriculture during the same time in states such as Orissa, Rajasthan and Punjab.

136. Highlight the positive contributions made by the British in India.

or

“The British rule brought a few advantages to the Indian economy.” Explain.

Ans :

SQP 2018

- (i) Better means of transportation. Development of roads and railways opened new opportunities for economic and social growth.
- (ii) Shift to a monetary economy. The British rule helped in the transition from barter system of exchange to monetary system of exchange.
- (iii) Check on famines. Roads and Railways help in keeping a check on the occurrence of famines as food supplies could now be easily transported to the affected areas.
- (iv) Effective administrative set-up. The British rule in India left a legacy of an efficient system of administration which served as a ready reckoner for our politicians and planners.
- (v) Improvement in agricultural productivity. Commer-cialisation of agriculture resulted in improvement in agricultural productivity. Agriculture gradually came to be accepted as a profitable venture rather than merely a means of subsistence.

137. The British developed Railways to sub-serve their colonial interest but its social benefits outweighed the economic losses to the country. Explain the statement.

Ans :

COMP 2015

The British developed Railways in order to facilitate the movement of raw material from their source to the ports for further transportation to England. Railways also led to the expansion of the market for British products. But it also helped the Indian economy in many ways:

- (i) It helped in keeping a check on famines by facilitating movement of grains.
- (ii) It enabled people to undertake long distance travel and thereby break geographical and cultural barriers.
- (iii) The volume of India’s exports also increased though its benefits did not accrue to the Indian people.
- (iv) India’s industrial development, i.e., cotton textile industries in Bombay, jute industry in Calcutta, tea plantation in Assam and Bengal owe their development to the expansion of Railways.

138. “The policy of protectionism encouraged the growth of domestic industries, but at the same time proved to be an impediment.”

Do you agree with the given statement? Give valid reasons in support of your answer.

Ans :

OD 2020

The policy of protectionism implies protection from global competition which encouraged the growth of domestic industries. It made possible for indigenous industries to prosper specially in the field of electronics and automobile sector. It also had a favorable impact on employment generation as protection to small scale industries helped to achieve the objectives of employment and equity. Economic growth got a big push and industrial output recorded a significant rise.

However, there were some negative effects to the strategy of industrial growth adopted during 1947-1950 :

- (i) The development of large number of public sector enterprises became a huge economic burden as these enterprises were running into losses and were termed sick enterprises. By incurring huge losses, public sector enterprises led to inefficient use of scarce national resources.

The stagnation was primarily caused by exploitative land settlement systems introduced by the colonial government.

92. What is productivity in agriculture?

Ans : FOREIGN 2008

Productivity in agriculture means output per hectare of land.

93. Name the economists who estimated India's per capita income during the colonial period?

Ans : SQP 2010

V.K.R.V. Rao, Dada Bhai Naoroji, Findlay, William Digby, R.C. Desai etc.

94. What are capital goods industries ?

Ans : DELHI 2007

Capital goods industries are those that produce machinery, tools, and equipment used for manufacturing other goods.

95. What is meant by infant mortality rate?

Ans : COMP 2012

Infant mortality rate is the number of deaths of children under the age of one year per 1,000 live births in a given year.

96. What is life expectancy?

Ans : DELHI 2017

Life expectancy means average life of a person.

97. What was the od characteristic of India's foreign trade throughout the colonial period ?

Ans : SQP 2022

It was marked by a large export surplus, which often drained India's wealth.

98. What was the motive behind the infrastructure development during the British rule ?

Ans : COMP 2018

The primary motive was to serve British economic and administrative interests, not to benefit the Indian population.

99. What is capital goods industry?

Ans : OD 2021

Industries that produce machinery and tools used for manufacturing other goods.

100. What do you mean by colonialism ?

Ans : OD 2014

The practice of establishing colonies through conquest or other methods involved making them dependent, serving as a means for a country to expand its power, control, and rule over the political and economic life of regions beyond its borders.

101. Which industries were set up in India during the second half of the 19th century ?

Ans : FOREIGN 2016

Cotton and jute mills were set up in the Eastern part of the country which were dominated by the foreigners and textile industry in Maharashtra and Gujarat.

102. Which industries were set up in India after the Second World War ?

Ans : SQP 2015

Steel, cement, sugar, and paper industries were established in India after the Second World War.

103. Name the first steel industry of India.

Ans : COMP 2004

Tata Iron and Steel Company (TISCO).

104. What factors are responsible for limited foreign trade of India ?

Ans : OD 2005

Restrictive colonial policies on production, trade, and tariffs hindered the growth of foreign trade.

105. What was the Infant mortality rate during the colonial rule?

Ans : DELHI 2003

218 per thousand

106. What is the first stage of demographic transition ?

Ans : DELHI 2023

The first stage is characterized by high birth and death rates, resulting in slow population growth due to limited medical knowledge and food shortages.

107. Why half of India's foreign trade was restricted to Britain in pre-independence period ?

Ans : FOREIGN 2009

- (iii) Backward economy. At the end of the British rule, Indian economy was underdeveloped and backward. Our agricultural and industrial sector were both very backward and our per capita income was also very low.
- (iv) Dependent economy. During the British rule, our foreign trade came to depend only on Britain. We started importing commodities which we used to export earlier.
- (v) Disintegrated economy. The division of our country resulted in many adverse impacts like shortage of raw materials, loss of markets etc

CASE BASED QUESTION

142. Read the para given below and answer the questions that follow :

Even as the country's world famous handicraft Industries declined, no corresponding modern industrial base was allowed to come up to take the place of pride so long enjoyed by the former. The primary motive of the colonial government behind this policy of systematic de-industrialization was to reduce India to the status of a mere exporter of important raw materials for the upcoming modern industries in Britain and to turn India into a sprawling market for the finished products of Britain's modern industries so that their continued expansion could be ensured to the maximum advantage of their home country.

In the unfolding economic scenario, the decline of the indigenous handicraft Industries created not only massive unemployment in India but also a new demand in the Indian consumer market which was profitably met by the increasing imports of cheap manufactured goods from Britain.

India was forced to open its large markets to British goods which could be sold in India without any tariff or duties compared to local Indian producers who were heavily taxed. In Britain, protectionist policies such as bans and high tariffs or duties were implemented to restrict Indian goods, specially textiles, from being sold there, whereas raw cotton was imported from India without tariffs to Britain factories which manufactured textiles. British economic policies gave them a monopoly over India's vast markets and raw materials such as cotton.

- (i) The decline of the handicraft industry was caused due to:
 - (a) Discriminatory policies
 - (b) Low demand
 - (c) Indian imports
 - (d) Export surplus
- (ii) TISCO was established in _____.
 - (a) 1809
 - (b) 1907
 - (c) 1908
 - (d) 1806
- (iii) An industry that produces machines for production of goods meant for consumption is called _____ goods industry.
 - (a) Capital
 - (b) Consumer
 - (c) Final
 - (d) None of these
- (iv) Which industry suffered a setback due to the partition of the country in 1947?
 - (a) Handicraft
 - (b) Jute
 - (c) Cotton
 - (d) Both (b) and (c)

Ans :

- (i) (a) Discriminatory policies
- (ii) (b) 1907
- (iii) (a) Capital
- (iv) (d) Both (b) and (c)

143. Read the para given below and answer the questions that follow:

The details of the demographic condition regarding the population of British India were primarily obtained through a Census in 1881. Though suffering from several conditions, it unveiled the unevenness in the growth of Indian population. Consequently, in every ten years, such census procedures were conducted. Prior to 1921, India was in the initial step of demographic transition. The second step of transition started after 1921. At the time of independence, neither the total population nor its growth rate was very high. Despite this, the social development indicators were not very promising. The overall literacy level was less than 16% out of which the female literacy level was negligible at about 7%. Life expectancy was quite low at about 32 years as compared to the present 69 years. There was a lack of public health facilities which led to widespread water and air borne diseases.

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- 121.** India's occupational structure before independence was largely shaped by the policies and priorities of the colonial government. The distribution of workforce among various sectors highlighted the stagnation and imbalance in the economy. Highlight the salient features of India's pre-independence occupational structure.

Ans :

FOREIGN 2010

Salient features of India's pre-independence occupational structure are as follows :

- (i) Predominance of agricultural sector. The agricultural sector accounted for 72% of the workforce in 1951.
- (ii) States like Tamil Nadu, Andhra Pradesh, Kerala, and Bengal experienced a decline in workforce dependence on agriculture. In contrast, states such as Odisha, Rajasthan, and Punjab saw an increase in the proportion of their workforce engaged in agriculture during the same period.

NODIA

THREE MARK QUESTIONS

- 122.** Read the following text carefully

During the British colonial rule, the agricultural sector in India underwent significant changes. One of the most notable changes was the shift in the purpose of agricultural production, driven by the policies of the colonial government.

What is commercialization of agriculture? How did it affect the Indian economy during the British rule?

Ans :

OD 2024

Commercialization of Agriculture : It refers to the transition from subsistence farming to cultivating crops for sale in the market, often for export.

Effect on Indian Economy : Commercialization during British rule forced Indian farmers to grow cash crops like cotton, jute, and indigo instead of food crops, leading to frequent famines and food shortages. It made Indian agriculture dependent on global market fluctuations, adversely impacting farmers. While it benefited British industries by ensuring raw materials for their factories, it impoverished Indian farmers, increasing rural indebtedness and economic distress.

- 123.** Read the following text carefully:

The partition of India in 1947 not only divided the nation politically but also had far-reaching economic consequences. One of the most affected sectors during this time was agriculture, as the division altered the availability of resources and land.

What was the impact of partition on the Indian agricultural sector on the eve of independence?

Ans :

DELHI 2014

Impact of Partition on Indian Agriculture on the Eve of Independence are as follows :

- (i) Loss of fertile and irrigated lands, particularly in Punjab and Bengal, to Pakistan.
- (ii) Disruption of agricultural production and trade networks.
- (iii) Loss of major jute-producing areas, affecting the jute industry in India.
- (iv) Displacement of farmers, leading to reduced productivity and instability.
- (v) Increased strain on agricultural resources due to population shifts.
- (vi) Loss of agricultural infrastructure, further hindering growth and efficiency.

- 124.** What were the characteristics of foreign trade during the British rule?

Ans :

SQP 2015

Characteristics of Foreign Trade During British Rule are as follows :

- (i) Export surplus only consisted of raw materials like cotton, indigo, and jute.
- (ii) Import of British manufactured goods, especially textiles, dominated the Indian market.
- (iii) Trade was controlled under a British monopoly, limiting connections with other nations.
- (iv) The structure caused a significant drain of wealth to Britain.
- (v) Trade policies benefited Britain's economy, leaving India economically weakened.

- 125.** Read the following text carefully :

During British rule, India consistently had a favourable balance of trade due to its large export surplus. However, this surplus did not translate into economic growth for India and instead contributed to the country's impoverishment. The period of British rule has been called as an economic drain despite a favorable balance of trade. Why?

- 80.** The colonial government introduced land settlement systems like the zamindari system, which led to stagnation and low productivity in agriculture.

What was the od impact of the zamindari system on agriculture?

- (a) Increased productivity
- (b) Agricultural stagnation
- (c) Technological advancements
- (d) Expansion of irrigation

Ans :

COMP 2008

- (b) Agricultural stagnation

- 81.** India could not develop a sound industrial base because there was hardly any capital goods industry, and the colonial government's policies led to the decline of handicrafts.

Why was India unable to develop a strong industrial base during colonial rule?

- (a) Lack of skilled workers
- (b) Decline of handicrafts and absence of capital goods industries
- (c) Insufficient demand for goods
- (d) Poor natural resources

Ans :

DELHI 2020

- (b) Decline of handicrafts and absence of capital goods industries

- 82.** At the time of independence, India faced enormous social and economic challenges due to two centuries of British colonial rule.

What was the condition of India at the time of independence?

- (a) It had a strong industrial base
- (b) It faced major social and economic challenges
- (c) It was free from poverty and unemployment
- (d) It had no challenges due to colonial rule

Ans :

FOREIGN 2011

- (b) It faced major social and economic challenges.

- 84.** What do you mean by commercialization of agriculture?

Ans :

COMP 2024

It refers to producing crops primarily for sale in the market rather than for self-consumption.

- 85.** Define tertiary sector.

Ans :

DELHI 2000

Tertiary sector may be defined as that sector which includes trade and commerce, transport, storage, communication, trade, financing etc.

- 86.** Define occupational structure.

Ans :

OD 2001

Occupational structure refers to the distribution of the working population among different sectors of the economy, such as agriculture, industry, and services.

- 87.** What was the adverse effect of partition at the time of independence ?

Ans :

FOREIGN 2002

A significant portion of fertile and irrigated land went to Pakistan.

- 88.** What was the intention of the Britishers regarding Industrial development in India ?

Ans :

SQP 2001

To make India a supplier of raw materials and a market for British finished goods..

- 89.** What was the purpose of the British colonial rule in India ?

Ans :

COMP 2002

The sole purpose of the British colonial rule in India was to reduce it into a feeder economy for Great Britain's own rapidly expanding industrial base.

- 90.** What was the od aim of the Zamindars ?

Ans :

DELHI 2003

The primary interest of the Zamindars was to collect rent without considering the economic condition of the cultivators, leading to widespread misery and social unrest.

- 91.** What was the od cause of stagnation in the agricultural sector during the British rule ?

Ans :

OD 2006

ONE MARK QUESTIONS

- 83.** What is meant by subsistence agriculture ?

Ans :

OD 2024

Subsistence agriculture means producing crops for self-consumption rather than for marketing.

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- (v) Low Literacy Rates : Literacy levels were abysmally low, with only about 16% of the population being literate.

131. What objectives did the British sought to achieve through their policies of infrastructure development in India?

or

State and explain any two od causes behind infrastructural development by British rule.

Ans : SQP 2023

The British aimed to achieve the following through their infrastructure development policies:

- (i) Railways were introduced to transport finished goods to the interiors of the country and expand market access.
- (ii) Roads were built to mobilize the military quickly and transport raw materials from rural areas to nearby railway stations or ports for export to Britain.
- (iii) The Post and Telegraph system was established to ensure effective communication and odtain law and order across India.

132. Development of Railways during British rule encouraged colonial exploitation of the Indian resources.

Justify the given statement with valid arguments.

Ans : OD 2015

The British introduced the Railways in India in 1850. The Railways affected the structure of the Indian economy in many ways. on the positive side, it enabled the people to undertake long distance travel and thereby break geographical and cultural barriers. The volume of India's exports also expanded after the introduction of Railways but its benefits did not accrue to the Indian people. It also led to the expansion of market for British products. It fostered commercialization of Indian agriculture which adversely affected the self sufficiency of the village economies in India.

133. Read the following text carefully

The British introduced railways in India primarily to serve their administrative and economic interests. While it created a significant infrastructure, it had both positive and negative impacts on the Indian economy. How did introduction of Indian railways prove to be a boon as well as a challenge for the Indian economy?

Ans : OD 2009

The railways improved connectivity, facilitated internal trade, and supported the development of towns. It provided a faster means of transportation, boosting commerce and communication. However, it was primarily designed for colonial exploitation, enabling the export of raw materials to Britain and the import of British goods, which suppressed local industries. Additionally, the profits generated by railways were drained to Britain, with minimal reinvestment in India, making it both a benefit and a challenge for the Indian economy.

FOUR MARK QUESTIONS

134. The arrival of British economic policies and industrial goods had a devastating impact on India's traditional industries, particularly its flourishing handicrafts sector.

The traditional handicrafts industry was ruined under the British rule. Do you agree? Justify your answer.

Ans : OD 2024

Yes, the Indian handicrafts were systematically destroyed owing to the discriminatory policies of the British government besides other factors which have been explained below:

- (i) Discriminatory tariff policy : This policy allowed tariff free export of raw material from India and import of British industrial product into India but placed a heavy duty on the export of Indian handicraft products.
- (ii) Decline in state patronage : The disappearance of princely courts implied the end of state patronage to handicraft industry thereby leading to their decay.
- (iii) Change in demand pattern : The spread of British culture led to the emergence of a new class in India which was keen to adopt the western lifestyle leading to a decline in the demand for traditional handicrafts.
- (iv) Competition from machine made goods : The low cost machine made products from Britain gave stiff competition to Indian handicrafts.

135. Explain the changes that were observed in India's occupational structure during the British rule.

Ans : SQP 2023

The state of occupational structure during the British rule can be given as under:

Ans :

COMP 2004

During British rule, India's export surplus generated a favorable balance of trade, but the earnings were not reinvested in the Indian economy. Instead, the surplus was used to finance Britain's industrial growth, administrative expenses in India, and wars. This wealth transfer, known as the "economic drain," impoverished India despite its contributions to trade. Essential sectors like agriculture and industry eroded underdeveloped, leaving the Indian economy stagnant and dependent on Britain.

126. Read the following text carefully

The colonial economic policies were designed to benefit Britain at the expense of India. This resulted in a continuous transfer of India's wealth to Britain, commonly referred to as the "drain of wealth."

State three ways in which there was a drain of Indian wealth during the colonial period.

Ans :

FOREIGN 2016

During the British rule, India became an exporter of primary products and there was a huge export surplus due to excess exports.

However this export surplus was used:

- (i) To make payments for expenses incurred by an office set up by the colonial government in Britain.
- (ii) To meet expenses on War fought by the British government.
- (iii) To import invisible items.

127. What were the od causes of India's agricultural stagnation and backwardness during the British rule?

Ans :

COMP 2017

OD Causes of Agricultural Stagnation and Backwardness during British Rule:

- (i) Exploitative Land Revenue Systems : Systems like Zamindari heavily burdened farmers with high rents, regardless of their economic condition.
- (ii) Focus on Cash Crops : Farmers were forced to grow cash crops like cotton and indigo for British industries, neglecting food crops.
- (iii) Lack of Investment : No efforts were made to improve irrigation, farming techniques, or infrastructure.
- (iv) Rural Indebtedness : Farmers relied on moneylenders, leading to perpetual debt.
- (v) Neglect of Farmers' Welfare : No support or subsidies for agricultural development.

128. State the two-fold motive for the systematic destabilization of indigenous Indian industries in the Britishers.

Ans :

OD 2020

Two-Fold Motive for the Systematic Destabilization of Indigenous Indian Industries During British Rule:

- (i) To convert India into a supplier of raw materials, such as cotton and jute, for British industries.
- (ii) To eliminate Indian industries and make India a captive market for British manufactured goods by imposing high taxes on local products and flooding the market with cheaper British goods.

129. The export surplus generated in foreign trade during the British rule resulted in a loss to India in more than one ways. How?

Ans :

DELHI 2007

The Britishers diverted a large volume of India's foreign trade for their benefits. There was a large generation of export surplus under the British Raj. This export surplus came at the cost of low production of essential goods like clothes, food grains, kerosene etc. Resources were heavily being used to produce items for export, leading to an acute shortage of civil goods. The surplus generated from India's foreign trade was not invested in the Indian economy, rather it was used for administrative and war purposes.

130. Read the following text carefully :

India's demographic profile during the colonial period reflected the socio - economic challenges of the time. The population was largely rural, with low literacy rates, poor health facilities, and high mortality rates. Give a quantitative appraisal of India's demographic profile during the colonial period.

Ans :

OD 2005

- (i) High Birth and Death Rates : Birth rates were 48 per thousand, and death rates were 40 per thousand.
- (ii) Low Life Expectancy : Life expectancy was only 32 years.
- (iii) High Infant Mortality : Infant mortality rate was 218 per thousand.
- (iv) Stagnant Population Growth : Slow population growth due to poor healthcare, malnutrition, and frequent famines.

- (ii) Growth of domestic industry under protection led to its failure in achieving international standards in quality of products being produced. Growth through competition and diversification was conveniently neglected.
- (iii) The inward looking policy of import substitution proved to be a failure in saving foreign exchange. Our foreign exchange reserves started shrinking and were at an all time low by the end of 1990.
- (iv) The policy of unwanted control over the entry of foreign capital led to slow transfer of foreign technology to the domestic industries and they continued to produce old and outdated goods.

139. What was the old focus of the economic policies pursued by the colonial government? Explain the impact of these policies.

or

By the time India won its independence, the impact of the two century long British colonial rule was already showing on all aspects of the Indian economy. Elucidate.

Ans :

DELHI 2019

The economic policies pursued by the colonial government in India were concerned more with the protection and promotion of the economic interests of their home country rather than with the development of the Indian economy. Such policies brought about a fundamental change in the structure of the Indian economy, i.e., transforming the country into supplier of raw materials and consumer of finished industrial products from Britain.

Impact of economic policies of the colonial government :

- (i) The system of land settlement, and commercialization of agriculture, caused stagnation in the agricultural sector.
- (ii) The policy of de-industrialization led to the collapse of India's world famous handicraft industries. Also, there was hardly any capital goods industry to promote further industrialization in India.
- (iii) India was reduced to the status of a mere exporter of raw materials and importer of finished consumer goods.
- (iv) Our foreign trade was oriented to feed the industrial revolution in Britain.
- (v) The infrastructural facilities needed up-gradation, expansion and public orientation.

- (vi) There was prevalence of rampant poverty and unemployment.

140. What were India's most crucial economic challenges at the time of independence?

or

Underscore some of India's most crucial economic challenges at the time of independence.

Ans :

OD 2000

At the time of independence, India faced enormous social and economic challenges:

1. The agricultural sector suffered from surplus labour and low productivity.
2. The industrial sector needed modernization, diversification, capacity building and heavy public investment.
3. The infrastructural facilities including the framed railway network, needed up-gradation, public orientation and expansion.
4. Widespread poverty and unemployment.
5. Foreign trade was oriented to feed the industrial revolution in Britain.
6. Increased dependence of people on agriculture as a means of livelihood.
7. The literacy level and life expectancy were low whereas the overall mortality rate was high.
8. Shortage of raw materials for cotton and jute industries as most of the cotton and jute growing areas went to Pakistan.
9. Rehabilitation of large number of refugees from Pakistan.

141. Indian economy, at the time of independence, was colonial, stagnant, backward, dependent and disintegrated in nature. Explain the statement.

Ans :

FOREIGN 2008

The British rule turned the Indian economy into a colonial, stagnant, backward, dependent and disintegrated economy.

This is proved by the following :

- (i) Colonial economy. India as a supplier of raw material and as a consumer of finished goods became a feeder economy to the British industries.
- (ii) Stagnant economy. During the British rule, the Indian economy was growing at a very low rate. According to studies, the country's growth of real output during the first half of the 20th century was less than 2%.

For all practical purposes, Britain obtained a monopolistic control over India's exports and imports. As a result, more than half of India's foreign trade was restricted to Britain.

108. What is tariff ?

or

Why are tariffs imposed ?

Ans : DELHI 2014

A tariff is a tax or duty imposed on imported or exported goods, aimed at generating revenue or protecting domestic industries.

109. What were the old characteristics of Indian economy before the British Rule in India ?

Ans : OD 2019

Self-sufficient villages, developed handicrafts, flourishing trade, and indigenous banking systems.

110. Write down any two positive aspects of British rule.

Ans : FOREIGN 2000

- (i) Introduction of railways.
- (ii) Political unification of the country.

111. Why was population growth low in pre-independence India ?

Ans : SQP 2008

Population growth was low due to widespread poverty, malnutrition, and lack of proper healthcare facilities.

112. By whom were jute mills situated in Bengal dominated in colonial rule ?

Ans : COMP 2020

Jute mills in Bengal were dominated by British industrialists.

113. Which country had monopoly to control on foreign trade of India ?

Ans : DELHI 2011

Britain had a monopoly over India's foreign trade.

114. Name a modern industry which was in operation at the time of independence.

Ans : FOREIGN 2013

Cotton textiles

115. Which two industries were adversely affected by partition of the country?

Ans : SQP 2001

Cotton textile and jute industry.

116. When was the first official census conducted in India?

Ans : COMP 2002

1881

117. What do you mean by the occupational structure of an economy?

Ans : OD 2006

It refers to the distribution of working population according to different occupations like agriculture, industry, trade etc.

118. _____ is one of the old positive contribution made by the British in India. (Fill up the blank with correct answer)

Ans : OD 2020

Introduction of Railways

TWO MARK QUESTIONS

119. "Opening up of Suez Canal helped in establishing the British monopoly control over India's foreign trade". Justify the given statement with valid arguments.

Ans : OD 2024

The opening of the Suez Canal shortened the trade route between India and Britain, reducing transportation costs and time. This facilitated the export of raw materials like cotton and jute from India and the easy import of British finished goods. It reinforced British control over India's foreign trade while sidelining other trading nations.

120. What was the two-fold motive behind the systematic de-industrialization affected by British in pre-independence India.

Ans : SQP 2008

- (i) To reduce India to the status of merely being a supplier of raw materials for British industries.
- (ii) To transform India into a market for the finished goods produced by those industries.

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- (i) _____ Refers to an average number of years that a person can expect to live.
 (a) Infant mortality rate
 (b) Life expectancy
 (c) Death rate
 (d) Birth rate
- (ii) The purpose of the British rule in India was to:
 (a) Develop the Indian economy.
 (b) Develop the world economy.
 (c) Promote British interest.
 (d) Accelerate the process of industrialization in India.
- (iii) The infant mortality rate at the time of Independence was _____ per thousand in contrast to the present infant mortality rate of _____ per thousand.
 (a) 218,60 (b) 381,63
 (c) 218,63 (d) 381,60
- (iv) Match the following:

	Column-I		Column-II
1.	Female literacy rate	A.	Less than 2%
2.	Year of the great divide	B.	1850
3.	Introduction of Railways in India	C.	About 7%
4.	India's annual growth rate during British period	D.	1921

- (a) 1-C, 2-D, 3-B, 4-A
 (b) 1-B, 2-A, 3-D, 4-C
 (c) 1-C, 2-D, 3-A, 4-B
 (d) 1-A, 2-D, 3-B, 4-A

Ans :

- (i) (b) Life expectancy
 (ii) (c) Promote British interest.
 (iii) (c) 218,63
 (iv) (a) 1-C, 2-D, 3-B, 4-A

144. Read the para given below and answer the questions that follow:

India's economy under the British Colonial rule reoded fundamentally agrarian. About 85% of the country's population lived mostly in villages and derived their livelihood directly or indirectly from agriculture. However, despite being the occupation of such a large population, the agricultural

sector continued to experience stagnation and deterioration. This stagnation was oddly due to the various systems of land settlement, particularly the zamindari system. Under this system, the profit accruing out of the agricultural sector went to the zamindars instead of the cultivators who did nothing to improve the condition of agriculture. To a large extent, the terms of the revenue settlement were also responsible for the zamindars adopting this attitude. Other factors responsible for the low levels of agricultural productivity were low levels of technology, lack of irrigation facilities and negligible use of fertilisers. Despite some progress made in irrigation, India's agriculture was starved of investment in terracing, flood control, drainage and desalinization of soil.

- (i) Commercialization of agriculture resulted in shifting of agricultural production from _____ crops to _____ crops.
 (a) Food, cash
 (b) Wheat, Rice
 (c) Both (a) & (b)
 (d) Neither (a) nor (b)
- (ii) The od reason for stagnation in agriculture was:
 (a) Commercialization of agriculture.
 (b) Decline of handicraft Industries.
 (c) Discriminatory trade policies.
 (d) Land settlement system.
- (iii) Identify the statement which is not true in the context of the agricultural sector of India during the British rule:
 (a) Commercialization of agriculture helped farmers economically.
 (b) Agricultural sector was stagnant.
 (c) Farmers use old and outdated techniques of production.
 (d) The terms of revenue settlement were also responsible for the backward state of agriculture.
- (iv) Match the following choosing the correct reason:

	Column-I		Column-II
1.	Low level of agricultural production on the eve of independence.	A.	Fertile and productive land went to Pakistan during partition.
		B.	Low contribution of industrial sector to GDP.

2.	Poor state of industrial sector during the British rule.	C.	Exploitative British policies.
		D.	Commercialization of agriculture.

- (a) 1-B, 2-C
 (b) 1-C, 2-D
 (c) 1-A, 2-C
 (d) 1-D, 2-B

Ans :

- (i) (a) Food, cash
 (ii) (d) Land settlement system.
 (iii) (a) Commercialization of agriculture helped farmers economically.
 (iv) (c) 1-A, 2-C

145. Read the para given below and answer the questions that follow:

India has been an important trading nation since ancient times. But the restrictive policies of commodity production, trade and tariff pursued by the colonial government adversely affected the structure, composition and volume of India's foreign trade. Consequently, India became an exporter of primary products such as raw silk, cotton, wool, sugar etc. and an importer of finished consumer goods like cotton, silk and capital goods like light machinery produced in the factories of Britain. More than half of India's foreign trade was restricted to Britain while the rest was allowed with a few other countries. The opening of the Suez Canal further intensified British control over India's foreign trade. The most important characteristic of India's foreign trade throughout the colonial period was the generation of a large export surplus which came at a huge cost to the country's economy.

- (i) Which of the following is not a feature of India's foreign trade during the British rule:
 (a) The export surplus generated was used for India's benefit.
 (b) India was an exporter of primary products.
 (c) Imports of Britain's manufactured goods were duty-free.
 (d) India imported consumer goods like cotton, silk etc.
- (ii) The Suez Canal was opened for transport in:
 (a) 1850 (b) 1853
 (c) 1869 (d) 1901

- (iii) The large export surplus generated throughout the colonial period was also used to pay for the _____ of _____ items.

- (a) Import, visible
 (b) Import, invisible
 (c) Export, visible
 (d) Export, invisible

- (iv) Choose the correct pair of statement:

	Column-I		Column-II
1.	India became an exporter of	A.	Capital goods like machinery.
2.	Opening of the Suez Canal	B.	Primary products such as cotton, jute, wool etc.
3.	India started importing	C.	Reduced transportation cost between India and Britain.
4.	India's foreign trade was odly with Britain	D.	It also traded with China, Ceylon and Persia.

- (a) 1-A
 (b) 2-B
 (c) 3-C
 (d) 4-A

Ans :

- (i) (a) The export surplus generated was used for India's benefit.
 (ii) (c) 1869
 (iii) (b) Import, invisible
 (iv) (d) 4-A

146. Read the para given below and answer the questions that follow:

Under the colonial regime, basic infrastructure such as railways, ports, water transport, posts and telegraphs did develop. However, the real motive behind this development was not to provide basic amenities to the people but to sub serve various colonial interests. The roads that were built primarily served the purposes of mobilizing the army within India and drawing out raw materials from the countryside to the nearest railway station or to the port, to send this to England or other lucrative foreign destinations.

Introduction of the railways was considered as the most important contribution by the British. The railways affected the structure of the Indian economy in more than one way. It enabled people

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to undertake long-distance travel and thereby break geographical and cultural barriers. It also fostered commercialization of Indian agriculture which adversely affected the self sufficiency of the village economies in India. The volume of India's exports undoubtedly expanded but its benefits rarely accrued to the Indian people. The social benefits, which the Indian people gained owing to the introduction of the railways, were thus outweighed by the country's huge economic loss.

- (i) Following is not a positive contribution made by the colonial government:
 - (a) Telegraph and postal services
 - (b) Introduction of railways
 - (c) Development of industries
 - (d) Construction of roads
- (ii) India benefited from the development of Railways in the following ways:
 - (a) Expansion of foreign trade
 - (b) Helped in the process of industrialization
 - (c) Helped the people to travel from one place to another
 - (d) Both (b) and (c)
- (iii) Arrange the following events of India before independence in a chronological order:
 - i. Opening of the Suez Canal
 - ii. Second stage of demographic transition
 - iii. Introduction of Railways
 - iv. First census of British India
 - (a) i, ii, iii, iv
 - (b) ii, i, iv, iii
 - (c) iii, i, iv, ii
 - (d) i, iii, iv, ii
- (iv) During the colonial period the _____ sector accounted for the largest share of the workforce.
 - (a) Industrial
 - (b) Service
 - (c) Agricultural
 - (d) Agricultural

Ans :

- (i) (c) Development of industries
- (ii) (d) Both (b) and (c)
- (iii) (c) iii, i, iv, ii
- (iv) (c) Agricultural

CHAPTER 7

INDIAN ECONOMY (1950-1990)

SUMMARY

1. MEANING OF PLANNING

Planning can be defined as a technique in which a central planning authority seeks to achieve definite objectives and targets within a specified period of time while keeping the country's available resources in view.

2. TYPES OF ECONOMIC SYSTEMS

2.1 Capitalist Economy

Capitalist economy is one where the means of production are owned, controlled and operated by the private sector.

2.2 Socialist Economy

Socialist economy is one where the allocation of resources is determined by the government in accordance with needs of the society and not by the market forces.

2.3 Mixed Economy

Mixed economy is a combination of a free market economy and a socialist economy. Here, the market will provide whatever goods and services it can produce well, and the government will provide essential goods and services which the market fails to do.

3. ECONOMIC PLANNING

It means utilization of a country's resources into development activities in accordance with national priorities.

4. GROSS DOMESTIC PRODUCT (GDP)

It is the market value of all the goods and services produced in the country during the year.

Structural Composition

It is the contribution made by the three sectors,

namely the agricultural sector, the industrial sector and the service sector to the GDP of a country.

NITI Ayog (National Institute for Transforming India), established on 1st January, 2015 has replaced the Planning Commission which was formed on 15th March, 1950.

5. COMMON DEVELOPMENT PLANS IN INDIA

Common development plans of India are as follows :

5.1 Growth

It refers to increase in the country's capacity to produce the amount of goods and services within the country. A steady increase in GDP is a good indicator of economic growth.

5.2 Modernisation

Adoption of new technology to increase the production of goods and services is called modernisation. However, modernisation does not refer only to the use of new technology but also to changes in social outlook.

5.3 Self reliance

Self reliance implies reduction in the dependence on foreign aid and avoiding imports of goods which could be produced in India itself.

5.4 Equity

To ensure that the benefits of economic growth are shared by all the citizens, it is necessary to reduce inequality in the distribution of wealth and promote equality for the basic necessities like food, housing, healthcare, education etc.

6. AGRICULTURE

The Indian policy makers after independence sought to address the problems faced by the agricultural sector during the Colonial rule by adopting the following measures :

6.1 Land Reforms

These were the institutional reforms undertaken to increase agricultural production and productivity. Important among them were abolition of intermediaries, ceiling on land holdings, consolidation of land holdings, etc.

6.2 Green Revolution

It refers to the large increase in production of food grains resulting from the use of High Yielding Variety (HYV) seeds especially for wheat and rice.

6.3 Subsidy

Subsidies referred to availability of inputs at low prices than the market price. They were needed to encourage farmers to test the new technology. However the economic justification of subsidies in agriculture is, at present, a debatable issue.

7. INDUSTRY

After independence, recognizing the importance of industrialization in the development process of the economy, the government adopted a number of policy measures which have been outlined below:

7.1 Expansion of Public Sector

The government directly assumed responsibility of country's industrial development. This was done because of large scale investment requirement, for development of backward areas and because the market was not big enough to encourage industrialists to undertake major projects.

7.2 Industrial Policy Resolution 1956 (IPR 1956)

This resolution forms the basis of the second five year plan. The purpose of this policy was to promote regional equality.

7.3 Small Scale Industry

Small scale industries were needed for promoting rural development and for generating employment.

7.4 Industrial licensing

According to this, new industry could only be established after obtaining a licence from the government.

8. TRADE

An inward looking trade strategy was adopted after independence which was called import substitution. This policy aimed at replacing

imports with domestic production. A system of tariffs and quotas was adopted by the government to protect the domestic industries from foreign competition.

MULTIPLE CHOICE QUESTION

- What is the term used for the portion of agricultural produce that farmers sell in the market ?.

- (a) Buffer stock
- (b) Surplus stock
- (c) Marketed surplus
- (d) None of the above

Ans :

OD 2024

- (c) Marketed surplus

- The Industrial Policy Resolution, 1956 classified industries into _____ categories.

- (a) 2
- (b) 5
- (c) 3
- (d) 4

Ans :

COMP 2023

- (b) 5

- What percentage did the agriculture sector contribute to the GDP in 1990-91?

- (a) 24.6
- (b) 34.9
- (c) 40.5
- (d) 59.0

Ans :

OD 2017

- (b) 34.9

- The policy of protection contributed to the growth of:

- (a) Electronics and automobile sector
- (b) Cotton textiles
- (c) Iron and steel industries
- (d) Jute industry

Ans :

SQP 2011

- (a) Electronics and automobile sector

- What is the term for development achieved by utilizing domestic resources and minimizing imports?

on external resources and promotes indigenous industries. This ensures economic independence and stability.

- 41.** Equity in economic development refers to which of the following?
- Equal access to basic necessities for all citizens
 - Promoting only urban development
 - Focusing on rapid industrialization
 - Encouraging foreign investments

Ans : COMP 2023

(a) Equal access to basic necessities for all citizens
Equity ensures fair distribution of wealth and resources. It aims to reduce inequality and provide access to food, housing, education, and healthcare. This fosters inclusive economic growth.

- 42.** Land reforms undertaken post-independence aimed at achieving which of the following objectives?
- Increasing industrial output
 - Improving agricultural production and reducing exploitation
 - Promoting private land ownership
 - Encouraging mechanized farming only

Ans : DELHI 2001

(b) Improving agricultural production and reducing exploitation
Land reforms aimed to eliminate intermediaries and consolidate holdings. This increased productivity and provided peasants with ownership rights. It addressed exploitation in the agricultural sector.

- 43.** The Green Revolution primarily focused on increasing the production of which types of crops?
- Cash crops like cotton and jute
 - Food grains like wheat and rice
 - Fruits and vegetables
 - Medicinal plants

Ans : OD 2003

(b) Food grains like wheat and rice
The Green Revolution introduced HYV seeds, fertilizers, and irrigation. It targeted crops like wheat and rice to address food shortages. This revolutionized Indian agriculture in the 1960.

- 44.** What was the role of subsidies in the agricultural sector during the early stages of independence?
- To make agricultural exports cheaper
 - To encourage farmers to adopt new technology
 - To promote large-scale commercial farming
 - To reduce rural employment

Ans : FOREIGN 2006

(b) To encourage farmers to adopt new technology
Subsidies made inputs like fertilizers and HYV seeds affordable. This motivated farmers to experiment with new technology. It played a critical role in transforming agriculture.

- 45.** The Industrial Policy Resolution of 1956 aimed to achieve which of the following goals?

- Privatizing all industries
- Promoting balanced regional development and equality
- Encouraging free trade and open markets
- Focusing only on agriculture

Ans : SQP 2008

(b) Promoting balanced regional development and equality
The IPR 1956 emphasized reducing regional disparities through industrialization. It focused on promoting public sector industries and creating employment. This policy shaped the Second Five-Year Plan.

- 46.** What was the primary objective of expanding the public sector after independence?

- Promoting foreign investment
- Undertaking large-scale projects and industrialization
- Encouraging privatization of industries
- Reducing government intervention in the economy

Ans : COMP 2013

(b) Undertaking large-scale projects and industrialization
Public sector expansion allowed the government to manage infrastructure projects. It filled gaps left by private industries and addressed regional inequalities. This helped accelerate industrial growth.

- 47.** What does an inward-looking trade strategy, such as import substitution, aim to achieve?

- Increasing dependency on foreign goods
- Replacing imports with domestic production
- Promoting global trade partnerships
- Focusing solely on export growth

Ans : DELHI 2014

(b) Replacing imports with domestic production
Import substitution focuses on protecting domestic industries. Tariffs and quotas were used to encourage local production and reduce reliance on imports. This policy aimed at self-sufficiency.

16. Which of the following measures stimulated the growth of the economy as a whole by fostering the development of industrial and tertiary sectors?

(a) Independence
(b) Planning
(c) Colonial rule
(d) Green revolution

Ans :

FOREIGN 2022

(b) Planning

17. _____ is known as the architect of Indian Planning.

(a) Jawaharlal Nehru
(b) P.C. Mahalanobis
(c) Dr. Manmohan Singh
(d) Dr. Rajendra Prasad

Ans :

SQP 2023

(b) P.C. Mahalanobis

18. How many industries were reserved for the public sector under the Industrial Policy Resolution of 1956?

(a) 17
(b) 21
(c) 15
(d) 2

Ans :

SQP 2010

(a) 17

19. In the first phase of Green Revolution, output was restricted mainly to _____.

(a) Cereal and Pulses
(b) Wheat and Rice
(c) Cotton and Jute
(d) Jowar and Bajra

Ans :

SQP 2023

(b) Wheat and Rice

20. Which of the following is not the goal of five year planning in India?

(a) Modernisation
(b) Self reliance
(c) Equity
(d) Price stability

Ans :

DELHI 2018

(d) Price stability

21. What percentage of country's total population was engaged in agriculture during the time of independence?

(a) 55%
(b) 65%
(c) 75%
(d) 85%

Ans :

DELHI 2018

(c) 75%

22. Avoiding imports of those goods which could be produced in India itself, is linked with which of the following goals of economic planning?

(a) Growth
(b) Equity
(c) Self reliance
(d) Modernisation

Ans :

DELHI 2020

(d) Modernisation

23. Which of the following is not a goal of five year plans?

(a) Growth
(b) Self reliance
(c) Modernisation
(d) Deflation

Ans :

SQP 2019

(d) Deflation

24. 'It is important to ensure that the benefits of economic prosperity reach the poor sections as well, instead of being enjoyed only by the rich'.

Which goal of five year plans is mentioned in the given statement?

(a) Self reliance
(b) Equity
(c) Modernisation
(d) Growth

Ans :

SQP 2019

(b) Equity

25. In _____, First 'Industrial Policy Resolution' of Independent India was announced. (Fill up the blank with correct alternative)

(a) 1947
(b) 1948
(c) 1951
(d) 1956

Ans :

OD 2021

(b) 1948

- 26.** _____ was known as Architect of Indian Economic Planning. (Fill up the blank with correct alternative)

(a) Pandit Jawahar Lal Nehru
(b) Dr. Manmohan Singh
(c) P.C. Mahalanobis
(d) Dr. B.R. Ambedkar

Ans :

OD 2021

(c) P.C. Mahalanobis

- 27.** Co-operative marketing societies have faced a downfall in the recent years.'

Identify which of the following was not a reason behind its downfall.

(a) Lack of co-ordination between processing and marketing societies.
(b) Inefficient financial management.
(c) Inadequate coverage of all the members.
(d) Intervention of the government is most essential.

Ans :

OD 2021

(d) Intervention of the government is most essential.

- 28.** _____ is not a type of land reform introduced by Government of India, after Independence.

(a) Land ceiling
(b) Abolition of intermediaries
(c) Change in ownership of land holding
(d) Use of High Yielding Variety (HYV) seeds

Ans :

(d) Use of High Yielding Variety (HYV) seeds

- 29.** Planning is a technique where a central authority seeks to achieve specific objectives and targets. What does planning primarily consider while setting these targets?

(a) Natural disasters
(b) Available resources
(c) Political constraints
(d) Population size

Ans :

SQP 2000

(b) Available resources

Planning involves utilizing a country's available resources optimally. It ensures achieving specific objectives without wasting resources. The focus is on effective allocation and implementation.

- 30.** After independence, the rationale behind choosing Modernization as a planning objective for the Indian economy were _____

(i) To bring positive changes in the social outlook
(ii) Equitable distribution of income
(iii) Technological Upgradation
(iv) Increase in Economic Divide

Alternatives:

(a) i & ii
(b) ii & iii
(c) i & iii
(d) i & iv

Ans :

OD 2024

(c) i & iii

- 31.** NITI Aayog replaced the Planning Commission on which of the following dates?

(a) 26th January, 1950
(b) 1st January, 2015
(c) 15th August, 1947
(d) 15th March, 1950

Ans :

DELHI 2012

(b) 1st January, 2015

NITI Aayog was established to replace the Planning Commission. It focuses on policy formulation and fostering cooperative federalism. The Planning Commission was operational from 1950 to 2015.

- 32.** In a capitalist economy, the ownership, control, and operation of production resources lie in which sector?

(a) The government
(b) Private sector
(c) Cooperative societies
(d) Non-profit organizations

Ans :

COMP 2002

(b) Private sector

A capitalist economy operates on private ownership of resources. Individuals or private enterprises control production and profits. The government has minimal interference in business activities.

- 33.** A mixed economy is described as a combination of two economic systems. Which two systems does it integrate, and how do they function together?

(a) Feudal and socialist systems
(b) Capitalist and socialist systems
(c) Traditional and command economies
(d) None of the above

Ans :

OD 2005

(b) Capitalist and socialist systems

A mixed economy combines elements of capitalism and socialism. The private sector produces

goods efficiently, while the government manages essential services. It balances profit motive and social welfare.

- 34.** How are resources allocated in a socialist economy, and who determines the allocation for the welfare of society?

- (a) Market forces
- (b) Consumer demand
- (c) The government
- (d) International bodies

Ans :

DELHI 2004

- (c) The government

In a socialist economy, resource allocation is planned and controlled by the government. It ensures equal distribution based on societal needs. Market forces do not determine production or distribution.

- 35.** What is the main focus of economic planning, and how does it contribute to the overall development of a nation?

- (a) Military expansion
- (b) Entertainment industry
- (c) National development priorities
- (d) Global trade

Ans :

FOREIGN 2007

- (c) National development priorities

Economic planning directs resources toward key national priorities. It ensures economic growth and development in alignment with set objectives. The focus is on addressing long-term national needs.

- 36.** Gross Domestic Product (GDP) is a critical economic indicator. What exactly does GDP measure within a country for a given year?

- (a) Population growth
- (b) Import and export values
- (c) Market value of all goods and services produced
- (d) Total land area

Ans :

SQP 2009

(c) Market value of all goods and services produced
GDP reflects the total economic output of a country in a year. It measures the value of goods and services produced domestically. It indicates the overall economic health of a nation.

- 37.** The contribution of agriculture, industry, and services to GDP is collectively referred to as what?

- (a) National Income
- (b) Structural composition
- (c) Economic distribution
- (d) Resource allocation

Ans :

COMP 2011

- (b) Structural composition

Structural composition reflects the contribution of different sectors to GDP. It shows how agriculture, industry, and services drive the economy. This helps assess economic balance and growth.

- 38.** Growth in economic terms refers to which of the following changes within a nation's economy?

- (a) Population growth
- (b) Increase in production capacity of goods and services
- (c) Decrease in imports and exports
- (d) Expansion of rural areas

Ans :

OD 2015

- (b) Increase in production capacity of goods and services

Economic growth indicates the ability of a country to produce more goods and services. It is measured through a steady increase in GDP. Growth shows improvements in economic productivity.

- 39.** Modernization involves adopting new technology to achieve which of the following objectives?

- (a) Replace manual labor completely
- (b) Increase production and change social outlook
- (c) Focus only on industrial output
- (d) Maintain traditional farming methods

Ans :

FOREIGN 2018

(b) Increase production and change social outlook
Modernization includes using advanced technology to improve productivity. It also reflects changes in mindset and societal progress. It goes beyond technical upgrades to include broader development.

- 40.** What is the primary focus of self-reliance in a country's economic policy?

- (a) Enhancing dependence on foreign aid
- (b) Reducing dependence on imports and foreign aid
- (c) Increasing exports of agricultural goods
- (d) Promoting multinational corporations

Ans :

SQP 2021

(b) Reducing dependence on imports and foreign aid
Self-reliance encourages domestic production to meet national needs. It minimizes reliance

- (a) Economic growth
- (b) Self Reliance
- (c) Modernization
- (d) Equity

Ans :

COMP 2012

- (b) Self Reliance

- 6.** What is the maximum limit of fixed investment permitted in a small-scale industry?

- (a) ₹5 lakh
- (b) ₹50 lakh
- (c) ₹1 crore
- (d) ₹5 crore

Ans :

DELHI 2015

- (c) ₹1 crore

- 7.** In which year was India's first Five-Year Plan introduced?

- (a) 1951
- (b) 1947
- (c) 1940
- (d) 1950

Ans :

OD 2018

- (a) 1951

- 8.** Which of the following is not considered a land reform measure?

- (a) Tenancy reforms
- (b) Fixation of minimum support prices for crops
- (c) Abolition of zamindari system
- (d) Ceiling on land holdings

Ans :

FOREIGN 2021

- (b) Fixation of minimum support prices for crops

- 9.** Indian Green Revolution is most successful in:

- (a) Wheat and potato
- (b) Rice and wheat
- (c) Tea and wheat
- (d) Tea and coffee

Ans :

SQP 2023

- (b) Rice and wheat

- 10.** What changes were observed in India's foreign trade after independence?

- (a) Increase in percentage share of agriculture
- (b) Increase in percentage share of country's finished products
- (c) Rise in traditional exports
- (d) None of the above

Ans :

DELHI 2003

- (b) Increase in percentage share of country's finished products

- 11.** What is the primary objective of conducting various economic activities?

- (a) Profit
- (b) Competition
- (c) Public welfare
- (d) Equality

Ans :

OD 2006

- (c) Public welfare

- 12.** Which of the following is responsible for the heavy burden of debt and its interest?

- (a) BOP deficit
- (b) BOP surplus
- (c) Equilibrium
- (d) None of these

Ans :

FOREIGN 2008

- (a) BOP deficit

- 13.** What is required to safeguard against natural calamities such as floods, droughts, locusts, and thunderstorms?

- (a) Multiple cropping
- (b) Green revolution
- (c) Crop insurance
- (d) HYV

Ans :

SQP 2013

- (c) Crop insurance

- 14.** In which of the following type of economy are resources owned privately and the main objective behind economic activities is profit-making?

- (a) Capitalist
- (b) Socialist
- (c) Mixed
- (d) Global

Ans :

COMP 2014

- (a) Capitalist

- 15.** In which year was the National Development Council (NDC) established as an adjunct to the Planning Commission?

- (a) 1950
- (b) 1969
- (c) 1952
- (d) 1979

Ans :

DELHI 2016

- (c) 1952

- 48.** Planning as a concept ensures that a country achieves its development goals within a specific time-line. What does it prioritize during this process ?

- (a) Individual benefits over societal goals
- (b) Balanced allocation of resources
- (c) Unrestricted market competition
- (d) Private ownership of all resources

Ans :

OD 2016

(b) Balanced allocation of resources

Planning emphasizes the systematic use of resources to meet national objectives. It ensures economic efficiency and equitable growth. Development goals are aligned with resource availability.

- 49.** Why was self-reliance adopted as an important goal for post-independence India?

- (a) To depend less on foreign aid and promote domestic production
- (b) To attract more foreign investments
- (c) To focus on global trade partnerships
- (d) To encourage the outsourcing of production

Ans :

DELHI 2019

(a) To depend less on foreign aid and promote domestic production

Self-reliance aimed to make India independent of foreign resources. It encouraged local industries to meet national needs. This reduced vulnerability to external pressures.

- 50.** What does GDP (Gross Domestic Product) indicate about a country's economy?

- (a) Total population
- (b) The monetary value of all goods and services produced in a year
- (c) The number of industries operating in the country
- (d) Growth rate of the population

Ans :

FOREIGN 2017

(b) The monetary value of all goods and services produced in a year

GDP is the measure of a country's economic output. It reflects the value of goods and services produced within its borders annually. A growing GDP is a sign of economic progress.

- 51.** Structural composition of the economy refers to:

- (a) The division of population into rural and urban groups
- (b) The contribution of agriculture, industry, and services to GDP

- (c) The share of government and private enterprises in production
- (d) The geographical distribution of resources

Ans :

SQP 2022

(b) The contribution of agriculture, industry, and services to GDP

Structural composition shows the economic balance among sectors. It indicates the role of agriculture, industry, and services in GDP. This helps in assessing sectoral growth.

- 52.** What major changes did modernization bring in post-independence India?

- (a) Use of advanced technology and a change in societal outlook
- (b) Expansion of the traditional handicraft sector
- (c) Dependence on foreign aid and resources
- (d) Preference for conventional agricultural methods

Ans :

COMP 2010

(a) Use of advanced technology and a change in societal outlook

Modernization introduced better technology and improved productivity. It also encouraged progressive societal attitudes. This dual approach supported economic development.

- 53.** Equity as an economic goal ensures:

- (a) Equal access to resources and reduced inequality among citizens
- (b) Faster industrial development in urban areas
- (c) Government control over all resources
- (d) High growth in private sector profits

Ans :

OD 2020

(a) Equal access to resources and reduced inequality among citizens

Equity focuses on fair distribution of wealth and opportunities. It ensures everyone benefits from economic progress. This goal reduces poverty and social disparities.

- 54.** What was the primary reason for introducing land reforms in the agricultural sector?

- (a) To eliminate intermediaries and improve productivity
- (b) To encourage foreign investment in agriculture
- (c) To reduce labor dependence in farming
- (d) To increase export of agricultural goods

Ans :

FOREIGN 2000

(a) To eliminate intermediaries and improve productivity

Ans :

OD 2013

(d) Assertion is false but Reason is true.

- 77. Assertion :** The second phase of Green revolution saw the HYV technology spread to a large number of states benefiting a variety of crops.

Reason : The majority of wheat produced during the Green Revolution was kept by the farmer for self consumption.

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
- (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

FOREIGN 2014

(c) Assertion is true but Reason is false.

- 78. Assertion :** Small Scale Industries are a burden on government finances.

Reason : Small Scale Industries are given concessions like lower excise duty and bank loans at low interest rates.

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
- (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

SQP 2016

(d) Assertion is false but Reason is true.

- 79. Assertion :** Abolition of intermediaries did not completely fulfill the goal of equity.

Reason : The lower income groups benefited from the decline in prices of food grains as their supply increased due to the Green Revolution.

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
- (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

COMP 2017

(b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.

- 80. Assertion :** The proportion of GDP between 1950 and 1990 contributed by agriculture declined significantly but not the population depending on it.

Reason : Agricultural productivity increased substantially between 1950 and 1990.

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
- (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

DELHI 2022

(b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.

- 81. Assertion (A) :** License Permit Raj was a major obstacle for growth of private sector.

Reason (R) : Private sector wasted huge amount in obtaining licences, rather than on improving the product, quality and international competitiveness.

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
- (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

OD 2015

(a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.

STATEMENT BASED QUESTIONS

- 82. Statement 1 :** The tax reduction in the economic reform period was aimed at yielding larger tax revenue and curb tax evasion.

Statement 2 : Tax reductions negatively affected the developmental and welfare expenditure of government.

61. Consider the following statements about the Green Revolution:

- (i) The Green Revolution introduced High Yield Variety (HYV) seeds to increase food grain production.
- (ii) It focused only on cash crops like cotton and jute.
- (iii) The revolution mainly benefitted wheat and rice production.

Which of the above statements are correct?

- (a) (i) and (iii) only
- (b) (i) and (ii) only
- (c) (ii) and (iii) only
- (d) (i), (ii), and (iii)

Ans :

OD 2002

- (a) (i) and (iii) only

The Green Revolution emphasized HYV seeds for food grains, particularly wheat and rice. Statement 2 is incorrect as it did not focus on cash crops like cotton and jute.

62. Consider the following statements about modernization:

- (i) Modernization refers only to adopting advanced technology for production.
- (ii) It involves changes in the social outlook along with technological advancements.
- (iii) Modernization aims to improve production efficiency and societal progress.

Which of the above statements are correct?

- (a) (i) and (ii) only
- (b) (ii) and (iii) only
- (c) (i) and (iii) only
- (d) (i), (ii), and (iii)

Ans :

FOREIGN 2004

- (b) (ii) and (iii) only

Modernization includes both technological advancements and societal changes. Statement 1 is incorrect because modernization is not limited to technological improvements but encompasses broader development.

63. Consider the following statements regarding planning:

- (i) Planning focuses on utilizing a country's resources in accordance with national priorities.
- (ii) It aims to achieve specific objectives and targets within a set period.
- (iii) Planning disregards the need for equitable resource allocation.
- (iv) It ensures the optimal use of resources available to the country.

Which of the above statements are correct?

- (a) (i), (ii), and (iv) only
- (b) (i), (iii), and (iv) only
- (c) (ii), (iii), and (iv) only
- (d) (i), (ii), (iii), and (iv)

Ans :

SQP 2005

- (a) (i), (ii), and (iv) only

Planning emphasizes achieving national goals within a timeframe, ensuring resource optimization and equitable distribution. Statement 3 is incorrect, as planning includes equity in allocation.

64. Consider the following statements about the capitalist economy:

- (i) The means of production are privately owned and controlled.
- (ii) Market forces like demand and supply determine resource allocation.
- (iii) The government directly intervenes in production and pricing decisions.
- (iv) Private enterprises operate with profit as their primary motive.

Which of the above statements are correct?

- (a) (i), (ii), and (iii) only
- (b) (i), (ii), and (iv) only
- (c) (ii), (iii), and (iv) only
- (d) (i), (iii), and (iv) only

Ans :

COMP 2007

- (b) (i), (ii), and (iv) only

A capitalist economy relies on private ownership, market forces, and profit-driven enterprises. Statement 3 is incorrect, as the government's role in production is minimal.

65. Consider the following statements about the Green Revolution:

- (i) It introduced High Yield Variety (HYV) seeds to increase crop productivity.
- (ii) It focused primarily on wheat and rice production.
- (iii) Irrigation and chemical fertilizers were essential components of the revolution.
- (iv) It eliminated the inequality between small and large farmers.

Which of the above statements are correct?

- (a) (i), (ii), and (iii) only
- (b) (ii), (iii), and (iv) only
- (c) (i), (iii), and (iv) only
- (d) (i), (ii), (iii), and (iv)

Ans :

DELHI 2009

- (c) Relying entirely on foreign investments for development.
- (d) Eliminating agricultural reforms to focus solely on industrialization.

Ans : FOREIGN 2012

(b) Implementing land reforms, public sector expansion, and import substitution.

India's strategy focused on land reforms, public sector growth, and reducing foreign dependency through import substitution. Options (a), (c), and (d) misrepresent the policies in the passage.

- 94.** Post-independence, India implemented land reforms to improve agriculture and introduced the Green Revolution to boost food grain production. Industrial licensing and public sector expansion aimed to regulate and balance economic growth. Which of the following strategies were adopted by India to promote balanced economic growth after independence?
- (a) Encouraging unregulated industrial growth and focusing solely on exports.
 - (b) Expanding the public sector and introducing industrial licensing.
 - (c) Relying on foreign aid to drive economic development.
 - (d) Promoting agricultural stagnation to focus on industrialization.

Ans : SQP 2015

(b) Expanding the public sector and introducing industrial licensing.

India's economic policies included public sector expansion and industrial licensing to balance growth. Options (a), (c), and (d) contradict the strategies described in the passage.

- 95.** India's economic strategy post-independence emphasized self-reliance and equitable growth. Land reforms abolished intermediaries to empower farmers, while the Green Revolution increased food grain production. Import substitution encouraged domestic industries to reduce foreign dependency.
- What were the primary objectives of India's post-independence economic policies?
- (a) Encouraging unrestricted imports and reducing agricultural output.
 - (b) Empowering farmers through land reforms and promoting domestic industries.
 - (c) Eliminating food grain production to focus solely on industrial growth.
 - (d) Relying entirely on foreign investments for economic development.

Ans : COMP 2018

(b) Empowering farmers through land reforms and promoting domestic industries.

India's policies aimed at empowering farmers via land reforms and boosting domestic industries through import substitution. Options (a), (c), and (d) misrepresent the objectives outlined in the passage.

- 96.** Post-independence, India focused on planned economic development to address poverty and stagnation. The Green Revolution improved food grain production, and public sector expansion balanced regional disparities. Import substitution supported domestic industries.
- Which of the following describes India's approach to economic development after independence?
- (a) Relying on imports for industrial and agricultural needs.
 - (b) Expanding the public sector and implementing the Green Revolution.
 - (c) Prioritizing foreign investment over domestic industries.
 - (d) Abandoning agricultural growth to focus on industrialization.

Ans : DELHI 2021

(b) Expanding the public sector and implementing the Green Revolution.

India's economic policies emphasized public sector growth to reduce regional disparities and the Green Revolution to boost agriculture. Options (a), (c), and (d) contradict the strategies highlighted in the passage.

ONE MARK QUESTIONS

- 97.** In which year was the first industrial policy announced in India?

Ans : FOREIGN 2023

1948

- 98.** What is a Plan?

Ans : SQP 2000

A plan can be defined as making major economic decisions (what, how and for whom to produce) by the Central Planning Authority.

- 99.** Why should plans have goals?

Ans :

DELHI 2021

(d) Assertion is false but Reason is true.

- 71. Assertion :** After independence, the public sector played a leading role in the industrial development of the country.

Reason : Private sector was restricted through the policy of licensing in setting up of new industries.

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
 (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
 (c) Assertion is true but Reason is false.
 (d) Assertion is false but Reason is true.

Ans :

OD 2014

(b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.

- 72. Assertion :** Land Ceiling was meant to promote equity in agriculture.

Reason : Land Reforms were successfully implemented in the country changing the state of agriculture.

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
 (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
 (c) Assertion is true but Reason is false.
 (d) Assertion is false but Reason is true.

Ans :

FOREIGN 2001

(c) Assertion is true but Reason is false.

- 73. Assertion :** The fixation of quotas helped restrict foreign competition for domestic firms.

Reason : Industries of developed economies give tough competition to industries of developing countries.

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
 (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
 (c) Assertion is true but Reason is false.
 (d) Assertion is false but Reason is true.

Ans :

SQP 2003

(a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.

- 74. Assertion :** Government reserved production of a number of products for the small scale industry.

Reason : The purpose of equity and social welfare could be achieved only through direct participation of the state in the process of industrialisation.

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
 (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
 (c) Assertion is true but Reason is false.
 (d) Assertion is false but Reason is true.

Ans :

COMP 2006

(b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.

- 75. Assertion :** Tariffs were levied on exported goods to make them more expensive.

Reason : The policy of import substitution was followed to prevent drain of foreign exchange reserves.

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
 (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
 (c) Assertion is true but Reason is false.
 (d) Assertion is false but Reason is true.

Ans :

DELHI 2008

(d) Assertion is false but Reason is true.

- 76. Assertion :** The need to raise the standard of living of the people made the planners choose economic growth as an objective of Indian plans.

Reason : A negligible growth rate of 0.5% in per capita output per year led to the adoption of growth as the main and initial objective of Indian plans.

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
 (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
 (c) Assertion is true but Reason is false.
 (d) Assertion is false but Reason is true.

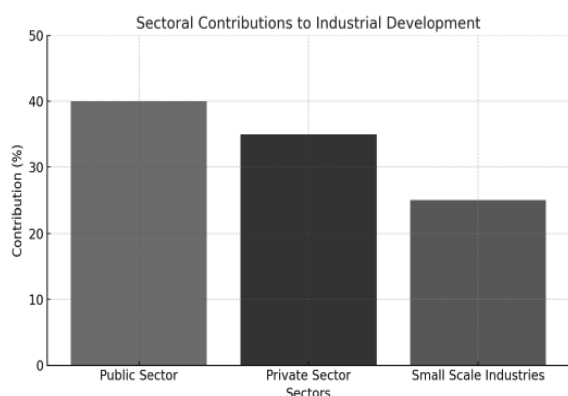
Ans :

OD 2002

(c) Industry contributes less than both agriculture and services to GDP.

From the graph, the services sector contributes 45%, agriculture contributes 30%, and the industry sector contributes 25% to GDP. This makes industry the lowest contributor among the three sectors.

88. The bar graph shows the contributions of the public sector, private sector, and small-scale industries to industrial development.



Based on the bar graph, which of the following statements is correct?

- The public sector contributes the least to industrial development.
- Small-scale industries contribute more than the private sector.
- The private sector contributes less than the public sector but more than small-scale industries.
- All three sectors contribute equally to industrial development.

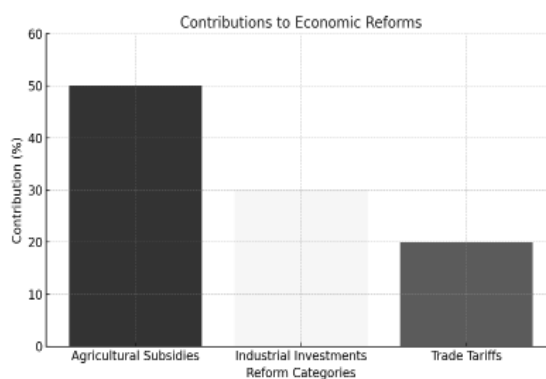
Ans :

FOREIGN 2004

(c) The private sector contributes less than the public sector but more than small-scale industries. From the graph, the public sector contributes 40%, the private sector contributes 35%, and small-scale industries contribute 25%. This makes the private sector the middle contributor, higher than small-scale industries but lower than the public sector.

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89. The bar graph shows the contributions of agricultural subsidies, industrial investments, and trade tariffs to economic reforms.



Based on the bar graph, which of the following statements is correct?

- Agricultural subsidies contribute the most to economic reforms.
- Trade tariffs contribute more than agricultural subsidies.
- Industrial investments contribute the least to economic reforms.
- Trade tariffs and industrial investments contribute equally to economic reforms.

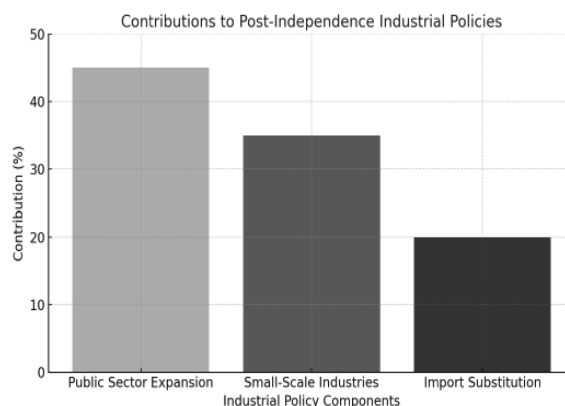
Ans :

SQP 2005

(a) Agricultural subsidies contribute the most to economic reforms.

From the graph, agricultural subsidies contribute 50%, industrial investments contribute 30%, and trade tariffs contribute 20%. This makes agricultural subsidies the highest contributor to economic reforms.

90. The bar graph shows the contributions of public sector expansion, small-scale industries, and import substitution to post-independence industrial policies.



Based on the bar graph, which of the following statements is correct?

- (a) Statement 1 is true & Statement 2 is false,
- (b) Statement 1 is false & Statement 2 is true.
- (c) Both statements 1 & 2 are true.
- (d) Both statements 1 & 2 are false.

Ans :

OD 2021

- (c) Both statements 1 & 2 are true.

- 83. Statement 1 :** Economic planning involves aligning a country's resources with national development priorities.

Statement 2 : Economic planning disregards the need for equitable distribution of resources.

- (a) Statement 1 is true & Statement 2 is false.
- (b) Statement 1 is false & Statement 2 is true.
- (c) Both statements 1 & 2 are true.
- (d) Both statements 1 & 2 are false.

Ans :

FOREIGN 2010

(a) Statement 1 is true & Statement 2 is false. Economic planning focuses on utilizing resources efficiently for national priorities, while equity in resource allocation is a key component of planning, making Statement 2 false.

- 84. Statement 1 :** The Green Revolution significantly increased food grain production, particularly wheat and rice.

Statement 2 : The Green Revolution eliminated inequalities among small and large farmers.

- (a) Statement 1 is true & Statement 2 is false.
- (b) Statement 1 is false & Statement 2 is true.
- (c) Both statements 1 & 2 are true.
- (d) Both statements 1 & 2 are false.

Ans :

SQP 2019

(a) Statement 1 is true & Statement 2 is false. While the Green Revolution improved food grain output, it widened the gap between small and large farmers due to unequal access to resources, making Statement 2 false.

- 85. Statement 1 :** In a capitalist economy, the means of production are owned by private individuals or enterprises.

Statement 2 : The government plays an active role in regulating production and resource allocation in a capitalist economy.

- (a) Statement 1 is true & Statement 2 is false.
- (b) Statement 1 is false & Statement 2 is true.
- (c) Both statements 1 & 2 are true.
- (d) Both statements 1 & 2 are false.

Ans :

COMP 2020

(a) Statement 1 is true & Statement 2 is false. A capitalist economy relies on private ownership of resources and minimal government intervention, making Statement 2 incorrect.

- 86. Statement 1 :** Modernization involves adopting new technology and improving social outlook.

Statement 2 : Modernization focuses solely on industrial sectors, ignoring agriculture and social progress.

- (a) Statement 1 is true & Statement 2 is false.
- (b) Statement 1 is false & Statement 2 is true.
- (c) Both statements 1 & 2 are true.
- (d) Both statements 1 & 2 are false.

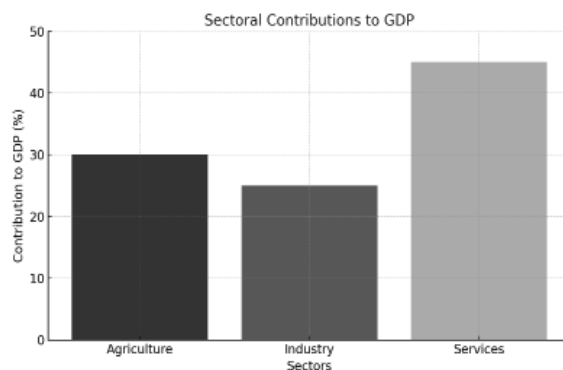
Ans :

DELHI 2000

(a) Statement 1 is true & Statement 2 is false. Modernization involves technological and societal advancements across all sectors, including agriculture and industry, making Statement 2 false.

GRAPH BASED QUESTIONS

- 87.** The bar graph shows the contributions of agriculture, industry, and services sectors to GDP.



Based on the bar graph, which of the following statements is correct?

- (a) The services sector contributes the least to GDP.
- (b) Agriculture contributes more than the services sector to GDP.
- (c) Industry contributes less than both agriculture and services to GDP.
- (d) Agriculture and industry contribute equally to GDP.

Land reforms abolished exploitative systems like Zamindari. They gave ownership to farmers and encouraged better use of land. This significantly boosted agricultural output.

- 55.** The Green Revolution focused on increasing food production through:
- Encouraging traditional farming techniques
 - Using High Yield Variety (HYV) seeds and modern inputs
 - Expansion of forested areas
 - Dependence on imported machinery

Ans :

SQP 2002

(b) Using High Yield Variety (HYV) seeds and modern inputs

The Green Revolution introduced HYV seeds, fertilizers, and irrigation. It targeted crops like wheat and rice, ensuring higher yields. This helped India achieve food security.

- 56.** What was the main purpose of the Industrial Policy Resolution of 1956?
- To ensure balanced regional development and promote public sector industries
 - To promote privatization and foreign investment
 - To focus on developing only large-scale industries
 - To limit government participation in the economy

Ans :

DELHI 2005

(a) To ensure balanced regional development and promote public sector industries

The IPR 1956 focused on reducing regional disparities. It emphasized the role of public sector industries in driving growth. This policy formed the basis of the Second Five-Year Plan.

- 57.** How did subsidies contribute to the success of the Green Revolution?
- By making new technology and inputs affordable for farmers
 - By reducing agricultural exports
 - By increasing dependency on foreign goods
 - By eliminating manual labor in farming

Ans :

COMP 2004

(a) By making new technology and inputs affordable for farmers

Subsidies reduced the cost of inputs like fertilizers and seeds. This encouraged farmers to adopt new technology. It played a vital role in agricultural transformation.

- 58.** Consider the following statements about the capitalist economy:

- In a capitalist economy, the means of production are owned by the government.
- Private sector controls and operates production in a capitalist economy.
- The government plays a minimal role in regulating the economy.

Which of the above statements are correct?

- (i) and (ii) only
- (ii) and (iii) only
- (i) and (iii) only
- (i), (ii), and (iii)

Ans :

DELHI 2000

(b) (ii) and (iii) only

A capitalist economy relies on private sector ownership and minimal government interference. Statement 1 is incorrect as production is not owned by the government in a capitalist system.

- 59.** In what form was protection provided to domestic industries against foreign competition?

- Tariffs
- Quotas
- Licenses
- Both (a) and (b)

Ans :

FOREIGN 2009

(d) Both (a) and (b)

- 60.** Consider the following statements regarding planning in India:

- Planning involves the utilization of a country's resources to achieve national priorities.
- Economic planning focuses on military expansion and global trade.
- Planning ensures resources are allocated for development within a specified timeframe.

Which of the above statements are correct?

- (i) and (iii) only
- (ii) and (iii) only
- (i) and (ii) only
- (i), (ii), and (iii)

Ans :

COMP 2020

(a) (i) and (iii) only

Planning emphasizes resource allocation for national priorities, not military expansion or global trade. Statements 1 and 3 align with the definition of planning, making them correct.

- (a) Import substitution contributes the highest to post-independence industrial policies.
- (b) Small-scale industries contribute more than public sector expansion.
- (c) Public sector expansion contributes the most to industrial policies.
- (d) All three components contribute equally to industrial policies.

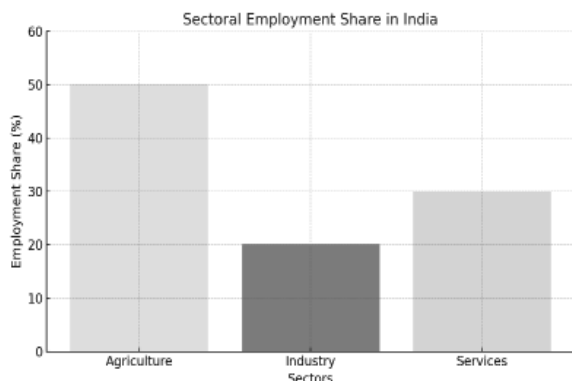
Ans :

COMP 2007

- (c) Public sector expansion contributes the most to industrial policies.

From the graph, public sector expansion contributes 45%, small-scale industries contribute 35%, and import substitution contributes 20%. This makes public sector expansion the largest contributor to post-independence industrial policies.

91. The bar graph shows the employment share of agriculture, industry, and services sectors in India.



Based on the bar graph, which of the following statements is correct?

- (a) Agriculture employs the majority of the workforce in India.
- (b) Services sector employs the least number of people among the three sectors.
- (c) Industry employs more people than agriculture but less than services.
- (d) All three sectors have an equal share in employment.

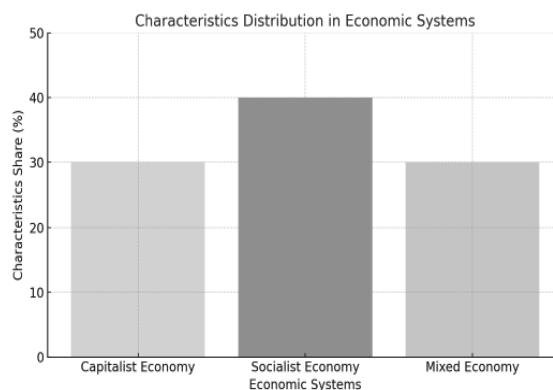
Ans :

DELHI 2009

- (a) Agriculture employs the majority of the workforce in India.

From the graph, agriculture employs 50% of the workforce, services employ 30%, and industry employs 20%. This makes agriculture the largest employer among the three sectors.

92. The bar graph shows the distribution of characteristics among capitalist, socialist, and mixed economies.



Based on the bar graph, which of the following statements is correct?

- (a) Socialist economy has the largest share of characteristics among the three systems.
- (b) Mixed economy contributes the least to the distribution of characteristics.
- (c) Capitalist and mixed economies have equal shares in characteristics distribution.
- (d) All three systems contribute equally to the characteristics distribution.

Ans :

OD 2011

- (c) Capitalist and mixed economies have equal shares in characteristics distribution.

From the graph, the socialist economy contributes 40%, while capitalist and mixed economies each contribute 30%. This makes socialist the highest contributor, while capitalist and mixed economies share equally.

PASSAGE BASED QUESTION

93. India adopted planned economic development post-independence. Land reforms improved agriculture, and the Green Revolution boosted food production. Public sector expansion and import substitution reduced foreign dependency. What were the key strategies adopted by India to promote economic development after independence?

- (a) Promoting unregulated industrial growth and focusing on export-led policies.
- (b) Implementing land reforms, public sector expansion, and import substitution.

- (a) (i), (ii), and (iii) only

The Green Revolution boosted food grain production using HYV seeds, irrigation, and fertilizers. However, it increased inequality as small farmers struggled to afford new technologies, making statement 4 incorrect.

66. Consider the following statements regarding modernization:

- (i) Modernization involves adopting advanced technology to increase production.
- (ii) It promotes a progressive outlook in society.
- (iii) It applies to both industrial and agricultural sectors.
- (iv) Modernization relies entirely on foreign investments for development.

Which of the above statements are correct?

- (a) (i), (ii), and (iv) only
- (b) (i), (iii), and (iv) only
- (c) (i), (iii), and (iv) only
- (d) (i), (ii), and (iii) only

Ans :

OD 2011

- (d) (i), (ii), and (iii) only

Modernization includes technological progress, societal change, and application across various sectors. Statement 4 is incorrect, as modernization does not depend solely on foreign investments.

ASSERTION AND REASON

67. **Assertion :** The Planning Commission was set up in 1950 with the Prime Minister as the Chairman.

Reason : The Government adopted economic planning for the development of the economy.

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
- (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

OD 2024

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.

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68. **Assertion :** The Industrial Policy Resolution of 1948 and the directive principles of the Indian Constitution assigned a leading role to the public sector.

Reason : Private sector was also encouraged to be part of the plan efforts.

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
- (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

SQP 2015

- (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.

69. **Assertion :** The New Agricultural Strategy helped to build a stock which could be used in times of food shortage.

Reason : Green Revolution helped increase production and productivity in agriculture and resulted in marketable surplus.

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
- (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

COMP 2018

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.

70. **Assertion :** Subsidies in agriculture were introduced to enable the fertiliser industry to expand rapidly.

Reason : Subsidies were considered necessary as the new technology was considered risky by the farmers.

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
- (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

COMP 2002

Plans should have goals to provide clear direction and ensure focused efforts toward achieving desired outcomes.

100. Define economic growth.

Ans :

SQP 2019

Economic growth is the increase in a country's production of goods and services over time, measured by the rise in its GDP.

101. What do you mean by Perspective plan?

Ans :

DELHI 2004

A Perspective Plan is a long-term strategic plan outlining broad development goals and directions, typically spanning 15-20 years.

102. What are subsidies?

Ans :

OD 2005

Subsidies are government financial aids to lower costs and promote specific goods or services.

103. What are Minimum Support Prices?

Ans :

FOREIGN 2007

Minimum Support Prices are government-fixed rates to protect farmers from price fluctuations.

104. What is marketable surplus?

Ans :

SQP 2009

Marketable surplus is the portion of agricultural produce left with farmers after meeting their own consumption and seed requirements.

105. When was the NITI Aayog established ?

Ans :

SQP 2019

Jan 1, 2015.

106. What are agrarian reforms?

Ans :

COMP 2011

Various policies and programmes initiated by the government in agriculture are called agrarian reforms.

107. Define the term Growth.

Ans :

DELHI 2017

Growth refers to increase in Country's GDP over the years.

108. Define subsistence farming.

Ans :

OD 2018

Subsistence farming is a type of agriculture where farmers grow crops primarily for their own consumption rather than for sale.

109. What is cooperative farming?

Ans :

FOREIGN 2012

Cooperative farming is a system where farmers voluntarily pool resources like land and equipment and share the benefits equally.

110. In which year economic planning in India began?

Ans :

FOREIGN 2010

1951.

111. Distinguish between subsistence farming and commercial farming.

Ans :

SQP 2015

Subsistence farming is for self-consumption, while commercial farming focuses on producing crops for sale and profit.

112. What do you mean by trade deficit?

Ans :

COMP 2018

A trade deficit occurs when a country's imports exceed its exports, leading to a negative trade balance.

113. What do you mean by volume of trade?

Ans :

DELHI 2021

Volume of trade refers to the total quantity or value of goods and services exchanged between countries over a specific period.

114. _____ Policy followed in first seven five year plans of India, aimed at substituting imports with domestic production. (Fill up the blank with correct answer)

Ans :

FOREIGN 2020

Import substitution

115. Policy of 'Import Substitution' was targeted to protect _____ industries. (Fill up the blank with correct answer)

Ans :

SQP 2020

Domestic.

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116. Define Gross Domestic Product.

Ans : FOREIGN 2013

Gross Domestic Product (GDP) is the total monetary value of all goods and services produced within a country's borders in a specific period.

117. What do you mean by public sector?

Ans : COMP 2023

The public sector refers to government-owned organizations and enterprises that provide goods and services for public welfare.

118. What is meant by Economic Planning?

Ans : DELHI 2001

Economic planning is the government's strategy to allocate resources for achieving economic and social goals.

119. When was the Planning Commission set up?

Ans : OD 2008

The Planning Commission was set up in 1950.

120. Define Mixed economy.

Ans : DELHI 2006

A mixed economy is a system combining both private and public sector participation in economic activities.

121. What is Private sector?

Ans : SQP 2014

The private sector refers to businesses and organizations owned and operated by individuals or groups for profit.

122. How many plans were implemented in India till 1991?

Ans : COMP 2016

Seven (excluding three annual plans)

123. What is the central objective of planning in India?

Ans : OD 2022

Growth with social Justice is the central objective of planning in India.

124. Who is the Chairperson of the Planning Commission of India?

Ans : COMP 2020

Prime Minister

125. Why is Indian economy called a mixed economy?

Ans : SQP 2000

The Indian economy is called a mixed economy because it combines features of both private and public sector participation in economic activities.

126. Define Socialist economy.

Ans : OD 2003

A socialist economy is a system where the government owns and controls resources and means of production to ensure equal distribution and social welfare.

TWO MARK QUESTIONS

127. Why do the loss making private sector firms close down whereas the public sector undertakings continue to operate despite them being a drain on the Indian economy?

Ans : OD 2004

Loss-making private firms close down due to financial unviability, as they rely on profits for survival. In contrast, public sector undertakings (PSU) continue operating because they serve social objectives like employment and infrastructure development. The government supports PSU despite losses, prioritizing public welfare over profitability, even if it burdens the economy.

128. Read the following text carefully :

India's economic policies after independence aimed to achieve self-reliance and reduce dependency on foreign countries. An inward-looking trade strategy, also known as import substitution, was a key component of these policies.

Explain the reasons behind adoption of an inward looking trade strategy?

Ans : DELHI 2003

India adopted an inward-looking trade strategy to promote self-reliance and reduce dependence on imports. It aimed to protect domestic industries through tariffs and quotas, encourage industrialization, and save foreign exchange. This strategy sought to shield the economy from external shocks, develop local industries, and achieve balanced economic growth by prioritizing domestic production over foreign goods.

- 129.** The protection provided to Indian industries from foreign competition was criticized as having done more harm than good. How?

Ans :

COMP 2002

The protection provided to Indian industries from foreign competition was criticized because it led to inefficiency, lack of innovation, and complacency among domestic industries. Shielded from global competition, industries often failed to improve quality, reduce costs, or adopt modern technology, hampering overall economic growth.

THREE MARK QUESTIONS

- 130.** “Farm subsidies put a huge burden on the government finances, but are necessary for the poor and marginal farmers.” Justify the given statement.

Ans :

SQP 2024

Farm subsidies, while placing a significant burden on government finances, are essential for poor and marginal farmers as they make critical inputs like seeds, fertilizers, and irrigation affordable. These subsidies ensure food security, increase agricultural productivity, and support livelihoods in rural areas. Without subsidies, small-scale farmers might struggle to compete in markets or sustain themselves, leading to economic distress and inequality. Thus, subsidies are necessary for fostering inclusive growth despite their financial cost.

- 131.** The process of industrialization implied a structural shift in the economy. Do you agree? Give reasons in support of your answer.

Ans :

DELHI 2023

Yes, industrialization implies a structural shift in the economy. It transforms an agrarian economy into an industrial one, reducing reliance on agriculture and increasing the contribution of manufacturing and services to GDP. Industrialization leads to urbanization, technological advancement, and higher productivity. It also creates employment opportunities, improves infrastructure, and boosts exports. This structural shift signifies economic development, moving from primary sector dominance to a more balanced reliance on secondary and tertiary sectors for sustained growth.

- 132.** ‘Agriculture sector has been adversely affected by the Economic reform process’. Comment.

Ans :

FOREIGN 2023

The agriculture sector has been adversely affected by the economic reform process due to reduced government support. Structural reforms focused on liberalization, privatization, and globalization, prioritizing industrial and service sectors. Subsidies for fertilizers, irrigation, and credit declined, while market volatility increased. Farmers faced competition from cheap imports, and inadequate infrastructure further worsened the situation.

- 133.** Why did India choose the path of economic development under the mixed economy framework?

Ans :

FOREIGN 2005

India adopted the mixed economy framework to combine the benefits of both public and private sectors. This approach ensured government control over critical industries like infrastructure and defense for equitable growth and social welfare, while encouraging the private sector to drive innovation, efficiency, and economic activity. By regulating key areas and allowing private participation, India aimed to achieve balanced economic growth, reduce income inequalities, and promote self-reliance, making it a pragmatic choice for addressing the nation's developmental needs post-independence.

- 134.** Does modernisation as a planning objective create contradiction in the light of employment generation? Explain.

Ans :

SQP 2018

Modernization as a planning objective can create contradictions with employment generation because it often involves replacing traditional labor-intensive methods with capital-intensive technology. While modernization boosts productivity, efficiency, and global competitiveness, it can reduce the demand for manual labor, leading to job losses in certain sectors. However, modernization also creates new employment opportunities in technology-driven and service sectors. Balancing technological advancements with strategies for skill development and labor absorption is essential to avoid unemployment and achieve inclusive growth.

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or

Indian agriculture on the eve of Independence was totally stagnant which was why top priority was given to agriculture during the planning period. Highlight the important features that have emerged during the period of economic planning.

Ans :

DELHI 2010

The main features of Indian agriculture during the period of economic planning were as follows:

- (i) Fragmented Landholdings : Land was divided into small, scattered plots, reducing productivity and efficiency.
 - (ii) Low Productivity : Traditional farming methods, poor irrigation, and lack of modern inputs led to low agricultural output.
 - (iii) Dependence on Monsoons : Inadequate irrigation facilities made agriculture heavily reliant on uncertain rainfall.
 - (iv) Socioeconomic Inequalities : Land distribution was highly unequal, and tenants faced exploitation under the zamindari system.
 - (v) Lack of Infrastructure : Poor rural roads, storage, and marketing systems hindered the commercialization of agriculture.
 - (vi) Financial Constraints : Limited access to institutional credit forced farmers to rely on high-interest loans from moneylenders.
- These issues necessitated reforms and modernization efforts.

- 154.** "Green Revolution has helped the government to build its buffer stock that can be used during times of shortage". Do you agree?

Ans :

FOREIGN 2022

I agree with the statement. The adoption of high-yielding variety seeds enabled farmers to produce significantly larger quantities of food grains, far exceeding their requirements for personal consumption. The surplus produce was purchased by the government and stored for use during times of scarcity caused by natural disasters, war, or other emergencies. As a result, the Green Revolution played a pivotal role in helping the government build and maintain a buffer stock of food grains to address shortages effectively.

- 155.** Evaluate the achievements and limitations of the new agricultural strategy.

Ans :

OD 2019

Achievements and Limitations of the New Agricultural Strategy

Achievements:

- (i) Increase in Food Grain Production: The Green Revolution led to self-sufficiency in food grains, reducing dependency on imports.
- (ii) Use of Modern Technology: Adoption of high-yielding variety (HYV) seeds, chemical fertilizers, and irrigation improved productivity.
- (iii) Economic Growth: Enhanced agricultural output contributed significantly to GDP growth.
- (iv) Creation of Buffer Stocks: Ensured food security during crises.

Limitations :

- (i) Regional Disparities: Benefits were limited to states like Punjab, Haryana, and Western Uttar Pradesh.
- (ii) Neglect of Non-Food Crops: Focus on wheat and rice led to the marginalization of pulses and oilseeds.
- (iii) Environmental Degradation: Overuse of fertilizers and water caused soil degradation and depletion of water tables.
- (iv) Exclusion of Small Farmers: Marginal farmers lacked access to resources to adopt modern methods.

- 156.** What is Green Revolution? Explain its features.

Ans :

FOREIGN 2020

Green Revolution in India refers to the large increase in production of foodgrains due to use of High Yielding Variety (HYV) seeds in the mid 60. The word 'Green Revolution' implies two things:

- (i) Marked improvement in food grain production sustainable over a long period of time.
- (ii) Increase in land productivity due to introduction of new agricultural technology.

Green revolution in India has the following features :

- (i) Focus on potential region : In the new strategy, a conscious decision was made to concentrate all the available resources in only potential regions so that the growth did not suffer from inadequacy of complementary resources.
- (ii) Introduction of modern input : Another fact was that new advanced inputs came to be introduced in agriculture. These inputs were:
 - (i) Use of HYV seeds : The basis of the new technology was the use of HYV seeds which gave larger amount of output and could be harvested in a shorter span of time. These seeds came to be known as miracle seeds.

must focus on skill development and creating jobs in emerging sectors, ensuring both technological progress and inclusive employment.

141. Read the text carefully

India's post-independence economic strategy prioritized reducing dependence on foreign goods to strengthen domestic industries. Import substitution played a crucial role in achieving this objective. Why was the policy of import substitution considered a prerequisite for achieving the goal of self reliance?

Ans :

OD 2001

The policy of import substitution was considered essential for achieving self-reliance as it aimed to reduce dependence on foreign goods by encouraging domestic production. By imposing tariffs and restrictions on imports, it protected infant industries, allowing them to grow and compete. This policy fostered industrialization, conserved foreign exchange, and promoted the development of indigenous technologies, ultimately strengthening the economy's capacity to meet its needs independently.

142. Equity in agriculture was sought to be achieved through land reforms which was not without its share of problems. Elaborate on the statement.

Ans :

COMP 2003

Equity in agriculture was pursued through land reforms, aiming to redistribute land and ensure fair access for marginalized farmers. Reforms included abolishing the zamindari system, setting land ceilings, and providing ownership rights to tenants. However, these reforms faced challenges like lack of political will, inefficient implementation, and loopholes exploited by large landowners to retain excess land. Corruption, inadequate land records, and resistance from vested interests further limited their success. Consequently, the goal of achieving true equity remained partially unrealized.

in the agricultural sector. Have these reforms been successful in their implementation?

or

Explain the need and type of land reforms implemented in the agriculture sector.

Ans :

COMP 2024

Need for Land Reforms :

- (i) Reduce Inequality : To address unequal land distribution and empower marginalized farmers.
- (ii) Increase Productivity : Ensure efficient use of land by redistributing surplus holdings.
- (iii) Eliminate Exploitation : Abolish intermediaries like zamindars to protect tenants from exploitation.
- (iv) Social Justice : Improve rural livelihoods and reduce poverty.

Types of Land Reforms :

- (i) Abolition of Intermediaries : Ended the zamindari system, transferring ownership to tillers.
- (ii) Tenancy Reforms : Provided security of tenure and regulated rents.
- (iii) Land Ceiling Acts : Limited the maximum land a person could own, redistributing surplus to the landless.
- (iv) Consolidation of Holdings : Prevented fragmentation to improve agricultural efficiency.

Success of Reforms :

Partially successful - abolition of intermediaries reduced exploitation, but implementation of land ceiling laws and redistribution faced loopholes, lack of political will, and administrative challenges, leaving many reforms incomplete.

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144. Distinguish between equal and equitable distribution of income. Which one is more important and why?

Ans :

DELHI 2006

Equal Distribution of Income ensures everyone receives the same income, regardless of effort, skills, or needs. While it promotes uniformity, it ignores individual contributions and circumstances, potentially discouraging productivity. Equitable Distribution of Income, on the other hand, allocates income fairly based on needs and contributions, reducing disparities while rewarding merit and effort. Equitable distribution is more important because it balances

FOUR MARK QUESTIONS

143. Equity in agriculture called for land reforms which primarily refers to change in the ownership of land holdings. In light of the given statement, explain the need and types of land reforms implemented

fairness and efficiency, addressing inequality without undermining motivation to work or innovate. By ensuring that resources reach the most disadvantaged while recognizing individual efforts, it fosters social justice, economic stability, and sustainable growth, benefiting society as a whole.

- 145.** Discuss briefly the rationale behind choosing 'self-reliance' as a planning objective for Indian economy.

Ans :

SQP 2024, 2020

Self-reliance refers to minimizing dependence on external assistance. This key objective focuses on preventing foreign interference in critical areas such as food supply, capital investments, and debt management. A nation can drive economic growth and modernization either by utilizing its own resources or by relying on imported resources. During the first seven Five-Year Plans, self-reliance was prioritized, emphasizing the avoidance of imports for goods that could be produced domestically. This approach aimed to reduce reliance on foreign countries, particularly for food. The policy was deemed essential to safeguard India's sovereignty, as excessive dependence on foreign food supplies, technology, and capital could expose the nation to external influence and compromise its autonomy in policy making.

- 146.** Goal of Equity was fully served by 'abolition of the intermediaries' in agriculture in the post-independence period of India. Do you agree with the given statement? Support your answer with valid arguments.

Ans :

SQP 2014

I do not agree with the statement. Alongside the objectives of growth, modernization, and self-reliance, equity is equally significant. Equity ensures that every individual can meet basic needs like food, housing, education, and healthcare, while aiming to reduce wealth inequality.

As part of land reforms, the Indian government sought to abolish intermediaries and grant ownership rights to those who directly cultivated the land. This was intended to incentivize tillers to improve the land permanently and enhance productivity.

However, the abolition of intermediaries did not fully achieve the goal of equity due to the following reasons:

- (i) Former zamindars exploited legal loopholes to retain large portions of land.
- (ii) Many tenants were evicted, with zamindars falsely claiming to be self-cultivators.
- (iii) Even after gaining land ownership, the poorest agricultural laborers often failed to benefit significantly from the reforms.

- 147.** Explain 'growth with equity' as a planning objective.

Ans :

OD 2008

The planning objective of growth with equity emphasizes achieving economic growth while ensuring that its benefits are distributed fairly across all sections of society. This involves reducing income inequalities, alleviating poverty, and providing opportunities for all, especially marginalized groups, to participate in and benefit from economic progress. It seeks to balance rapid industrial and agricultural growth with social justice by promoting employment, equitable access to resources, and regional development. This objective ensures that economic development leads to an improvement in living standards for all, not just a privileged few.

- 148.** Discuss briefly the rationale behind adopting 'modernization' as a planning objective for the Indian Economy.

Ans :

FOREIGN 2013

The rationale behind adopting modernization as a planning objective was to enhance productivity and improve the quality of life by introducing advanced technology, modern infrastructure, and progressive social changes. After independence, India needed to transition from traditional methods of production to modern techniques in agriculture, industry, and services to compete globally and ensure sustainable growth. Modernization also aimed at improving education, health, and gender equality, fostering a more skilled workforce and a progressive society. It was essential for achieving long-term economic growth and breaking away from colonial-era stagnation and backwardness.

- 149.** While subsidies encourage farmers to use new technology, they are a huge burden on government finances. Discuss the usefulness of subsidies in the light of this fact.

Ans :

COMP 2016

Subsidies to farmers are considered necessary so as to provide them with the incentive for the adoption of new HYV technology. Farmers looked upon the new technology as risky. So to encourage them to use the new technology, subsidies should be provided.

The government should also provide agricultural subsidies because farming in India is a risky business as it mainly depends upon the monsoon. Most of the farmers are very poor and would not be able to afford the required inputs without the support of subsidies.

Also elimination of subsidies would increase the inequality between rich and poor farmers and violate the goal of equity.

However, subsidies are a great burden on government finances. Therefore, some economists believe that these should be phased out. According to them, the purpose of providing subsidies has already been served. Subsidies are largely benefiting the farmers in more prosperous regions and the fertilizer industry. It does not benefit the small farmers and hence, there is no need for continuing with it.

- 150.** “The debate over farm subsidies in India is enraged at different platforms.”
Discuss any two arguments in favour of continuing farm subsidies.

Ans :

DELHI 2023

An agricultural subsidy refers to financial support provided by the government to farmers to enhance their income, regulate the supply and availability of agricultural goods and inputs, and influence their cost and distribution.

- (i) Subsidies often take the form of reduced prices for inputs such as seeds, fertilizers, irrigation power, and credit at lower interest rates. These measures help farmers lower their production costs.
- (ii) Another form of subsidy involves setting a minimum procurement price for agricultural produce. By doing so, the government ensures that farmers recover their costs and earn a reasonable profit.

These subsidies aim to support the 55% of the population reliant on agriculture, enabling them to achieve a basic standard of living and reducing the incidence of suicides in India's agriculture-dependent economy.

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- 151.** What role did the government play in ensuring that the Green Revolution benefited small farmers as well?

Ans :

OD 2017

The Green Revolution might have primarily benefited wealthy farmers if the government had not actively ensured that small farmers also reaped its advantages. The government played a crucial role in this regard by:

- (i) Offering loans to small farmers at low-interest rates, enabling them to invest in new technology.
- (ii) Providing subsidized fertilizers, ensuring that small farmers could afford essential inputs.
- (iii) Reducing the risk of crop failure due to pest attacks by establishing research institutes that offered solutions and support to safeguard crops.

These measures ensured that the benefits of the Green Revolution were more inclusive and extended to small farmers as well.

- 152.** “Some economists believe that the economic reforms have adversely affected the agriculture sector in India.”

Do you agree with the given statement? Justify your answer with valid reason.

Ans :

SQP 2020

Yes, the economic reforms of 1991 have adversely affected the agriculture sector in India. The main reasons are:

- (i) Reduced Public Investment : Liberalization shifted focus towards industry and services, reducing government investment in agriculture infrastructure like irrigation, research, and rural development.
- (ii) Price Instability : Removal of trade restrictions led to increased exposure to international markets, causing price volatility for agricultural goods.
- (iii) Neglect of Small Farmers : Emphasis on export-oriented cash crops benefited large farmers, while small and marginal farmers faced challenges.
- (iv) Limited Credit Access : Financial liberalization reduced priority sector lending to agriculture, worsening farmers' financial issues.

These factors hindered agricultural growth and rural livelihoods.

- 153.** Explain the problems faced by Indian agriculture after independence.

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- 135.** “Growth of an economy implies self reliance”. Do you agree with the statement? Give reasons.

Ans :

DELHI 2011

Yes, the growth of an economy implies self-reliance, as it reduces dependence on foreign aid, imports, and external support. A growing economy develops domestic industries, enhances productivity, and generates sufficient resources to meet its needs. It strengthens infrastructure, technology, and human capital, enabling the nation to sustain itself. Economic growth also boosts exports, earning foreign exchange and reducing trade deficits. Thus, self-reliance is a natural outcome of sustained economic growth, fostering independence and resilience in global markets.

- 136.** Why is it considered unrealistic to give equal importance to all the goals of a plan?

Ans :

COMP 2009

Giving equal importance to all goals in a plan is unrealistic due to limited resources like funds, time, and manpower. Prioritizing allows efficient resource allocation to address urgent or critical issues. Some goals, such as economic growth, can indirectly contribute to others, like poverty alleviation or employment generation. Attempting to focus on all goals equally may dilute efforts, resulting in suboptimal outcomes. Hence, planning involves setting priorities based on feasibility and the interconnected impact of various objectives.

- 137.** What is sectoral composition of an economy? Is it necessary that the service sector should contribute maximum to the GDP of an economy? Comment.

Ans :

OD 2012

Sectoral Composition of an Economy : The sectoral composition refers to the relative contribution of primary (agriculture), secondary (industry), and tertiary (services) sectors to a country's GDP. It indicates the economic structure and development level of a nation.

Comment : It is not necessary for the service sector to contribute the maximum to GDP. While a dominant service sector reflects a developed economy, balanced growth across all sectors is crucial for sustainable development. Over-reliance on services can neglect agriculture and manufacturing, leading to unemployment and import dependency. Thus, each sector's growth should align with the country's development needs.

- 138.** Can a substantial size and increase in supporting services like transport and banking be called as growth of an economy? Comment.

Ans :

FOREIGN 2015

An increase in supporting services like transport and banking indicates economic development but does not solely define economic growth. These services enhance efficiency, trade, and industrial activity, contributing to GDP. However, true economic growth requires balanced progress across agriculture, industry, and services, along with rising income, employment, and living standards. Growth in services alone, without improvements in production and equity, cannot represent overall economic prosperity.

- 139.** India's economic planning evolved significantly after independence, beginning with the establishment of the Planning Commission. Over time, the need for a more dynamic approach led to the creation of NITI Aayog. Write a short note on the Planning Commission and Niti Ayog.

Ans :

SQP 2007

Planning Commission : Established in 1950, the Planning Commission was responsible for formulating Five-Year Plans and strategizing resource allocation to achieve economic growth and development. It played a key role in India's planned economy but faced criticism for being overly centralized and inefficient.

NITI Aayog : Replacing the Planning Commission in 2015, NITI Aayog emphasizes cooperative federalism and policy formulation. It focuses on fostering innovation, development, and state-specific strategies, promoting a more participatory and adaptive approach.

- 140.** Modernisation as a planning objective shows a dichotomy with employment generation. Justify the statement.

Ans :

COMP 2021

Modernization as a planning objective shows a dichotomy with employment generation because it emphasizes adopting advanced technology, which often replaces labor with machines, reducing job opportunities in traditional sectors. While modernization improves productivity and efficiency, it can lead to unemployment, particularly for unskilled workers. However, it simultaneously creates new opportunities in technology-driven industries. To address this dichotomy, planning

- (ii) Use of chemical fertilizers : The new technology emphasized the application of chemical fertilizers as the HYV seeds needed huge amount of soil nutrients.
- (iii) Proper irrigation : The HYV seeds could be effectively used only when there was adequate availability of water supply.
- (iv) Application of pesticides : To protect the plants from diseases, the use of pesticides was emphasized.

157. Discuss any two merits and demerits of the Green Revolution in the agricultural sector in the Indian economy.

Ans :

SQP 2023

Merits of Green Revolution :

- (i) Increased Agricultural Production: The Green Revolution led to a significant rise in food grain output, ensuring food security and reducing dependence on imports.
- (ii) Rural Development: It spurred economic growth in rural areas, creating employment in agriculture-related industries like fertilizer production and irrigation infrastructure.

Demerits of Green Revolution :

- (i) Regional Disparities : Benefits were concentrated in states like Punjab and Haryana, leaving other regions behind, particularly eastern and southern states.
- (ii) Environmental Degradation: Overuse of chemical fertilizers, pesticides, and water caused soil degradation, waterlogging, and a decline in water tables.

158. Briefly evaluate the effects of industrialisation on the Indian economy during the period 1950-1990.

Ans :

COMP 2000

Effects of Industrialization on the Indian Economy (1950-1990)

Positive Effects:

- (i) Foundation of Heavy Industries : Establishment of key industries like steel, cement, and chemicals under the Five-Year Plans promoted industrial growth.
- (ii) Public Sector Expansion : Public sector enterprises were set up to control strategic sectors, ensuring self-reliance in critical areas like defense and energy.
- (iii) Job Creation : Industrialization provided employment opportunities, reducing dependence on agriculture.

- (iv) Diversification : Shift from agrarian to industrial economy helped diversify income sources and modernize the economy.

Negative Effects :

- (i) Regional Imbalance : Industrial growth was concentrated in certain regions like Maharashtra and Gujarat, leading to uneven development.
- (ii) Inefficiency in Public Sector : Many public enterprises became inefficient due to bureaucracy and lack of competition.
- (iii) Neglect of Consumer Goods : Focus on heavy industries often sidelined the production of essential consumer goods, creating shortages.
- (iv) Limited Private Sector Role : License-permit raj restricted private sector growth and innovation.

159. Explain the reasons responsible for the public sector playing a dominant role in the country's industrial development after independence.

Ans :

DELHI 2024

Reasons for Dominant Role of Public Sector in Industrial Development After Independence

- (i) Promoting Self-Reliance : India aimed to reduce dependence on foreign countries by establishing a strong industrial base in key sectors like steel, energy, and defense.
- (ii) Control of Strategic Sectors : Sectors critical to national security, such as defense and heavy industries, were reserved for the public sector to ensure government control.
- (iii) Addressing Regional Disparities : Public enterprises were set up in backward areas to promote balanced regional development and reduce inequalities.
- (iv) Capital-Intensive Industries : Private sector lacked the capital to invest in heavy industries; hence, the government took the lead.
- (v) Social Welfare Goals : Public sector industries focused on generating employment and producing essential goods to improve living standards.
- (vi) Implementation of Planning Goals : Public sector enterprises aligned with the Five-Year Plans to drive industrialization and economic growth.

160. How did adoption of the industrial policy resolution of 1956 facilitate the development of Indian economy on socialist lines?

Ans :

OD 2001

The Industrial Policy Resolution of 1956 laid the foundation for India's economic development on socialist lines by emphasizing state control and planning in industrial growth.

Facilitation of Socialist Development

- (i) Categorization of Industries : Industries were divided into three categories. The government assumed exclusive control over critical sectors like defense, steel, and energy, while the private sector operated in non-essential areas under regulation.
- (ii) Expansion of Public Sector : The resolution promoted the public sector as the driver of economic growth, ensuring equitable distribution of resources and reducing private monopolies.
- (iii) Focus on Equity : Industrialization under state control aimed to reduce wealth inequalities and achieve balanced regional development.
- (iv) Promotion of Planning : Aligning with Five-Year Plans, the resolution prioritized heavy industries and infrastructural development, reflecting socialist ideals of self-reliance and welfare.
- (v) Support for Cottage Industries : Encouragement of small and cottage industries provided employment and preserved traditional crafts.

161. What are small scale industries? Explain their importance in the growth process of the Indian economy.

or

Discuss briefly the role of small-scale industries in the growth Journey of India.

Ans :

COMP 2024

Small-Scale Industries (SSIs)

Small-scale industries are industrial undertakings in which the investment in fixed assets in plant and machinery does not exceed a specified limit, typically defined by government policies (e.g., Rs 1 crore to Rs 5 crores in India). These industries include manufacturing, service, and production units characterized by small-scale operations.

Importance in India's Economic Growth:

- (i) Employment Generation : SSIs are labor-intensive, providing jobs to millions, especially in rural and semi-urban areas.
- (ii) Regional Balance : Promote industrialization in underdeveloped regions, reducing regional disparities.

- (iii) Utilization of Local Resources : Use local raw materials, skills, and resources, fostering local economic development.
- (iv) Export Promotion : Contribute significantly to India's exports by producing handicrafts, textiles, and other goods.
- (v) Entrepreneurship Development : Encourage self-employment and entrepreneurship among diverse social groups.
- (vi) Equity and Inclusivity : Reduce income inequalities by supporting small entrepreneurs and disadvantaged sections.

SSIs play a pivotal role in achieving sustainable and inclusive economic growth in India.

162. Large scale industry is not a substitute for small scale industries in the Indian economy. Do you agree? Justify your answer.

Ans :

FOREIGN 2003

Yes, large-scale industries are not a substitute for small-scale industries (SSI) in the Indian economy, as both play complementary roles.

Justification

- (i) Employment Generation SSI are labor-intensive and provide employment to a significant portion of the population, especially in rural and semi-urban areas.
- (ii) Regional Development SSIs promote balanced regional development by flourishing in less industrialized areas, while large industries are concentrated in specific regions.
- (iii) Contribution to Exports SSIs contribute significantly to exports, particularly in handicrafts, textiles, and small machinery, boosting foreign exchange earnings.
- (iv) Economic Inclusivity SSIs enable the participation of marginalized sections in economic activities, fostering entrepreneurship and reducing inequalities.

While large-scale industries are essential for heavy infrastructure and global competitiveness, SSIs address grassroots development and socioeconomic equity.

163. How did the policy of licensing help in promoting regional equality?

Ans :

SQP 2006

The policy of licensing, introduced under India's Industrial Policy, aimed to regulate industrial growth and promote balanced regional development.

Role in Promoting Regional Equality :

- (i) Control over Location of Industries : Licenses were granted with a focus on setting up industries in backward and underdeveloped regions, reducing regional disparities.
- (ii) Incentives for Backward Areas : Entrepreneurs were offered subsidies, tax exemptions, and cheaper land to establish industries in economically lagging regions.
- (iii) Decentralized Industrial Growth : Licensing restricted the concentration of industries in already developed states, ensuring equitable distribution of industrial benefits across the country.
- (iv) Support for Infrastructure Development : To facilitate industrialization in backward regions, the government invested in improving infrastructure like roads, power, and water supply, fostering regional equality.
- (v) This policy aimed to integrate neglected areas into the mainstream economy and reduce income disparities among regions.

164. How did the Industrial Policy Resolution, 1956 help in accelerating the pace of industrial development under the mixed form of economy?

or

Discuss the main features of the Industrial Policy Resolution 1956.

Ans :

DELHI 2008

The Industrial Policy Resolution (IPR), 1956 aimed to accelerate industrial development in India under a mixed economy by emphasizing a balanced role for the public and private sectors. Key contributions include:

- (i) Categorization of Industries : Divided industries into three categories:
 - (i) Exclusive government control (e.g., defense, railways).
 - (ii) Government-dominated industries but with private participation (e.g., mining, steel).
 - (iii) Private sector-led industries.
- (ii) Public Sector Expansion : Focused on strengthening the public sector to develop heavy and basic industries, ensuring infrastructure and industrial growth.
- (iii) Private Sector Role : Encouraged private industries in non-reserved sectors with government support through licenses, subsidies, and tax benefits.

(iv) Balanced Regional Development : Promoted industrialization in backward areas to reduce regional disparities.

(v) Socialistic Objectives : Aimed at equitable wealth distribution and employment generation.

This policy laid the foundation for self-reliance, modernization, and equitable growth in India.

165. Discuss the important policy measures adopted by the Indian government for the rapid industrial development of the country after independence.

Ans :

OD 2013

After independence, the government recognized the importance of industrialisation in the development process of the economy.

Therefore, it adopted a number of measures some of which have been discussed:

- (i) Industrial Policy Resolutions:
 - (i) 1948 : Defined the role of public and private sectors in a mixed economy.
 - (ii) 1956 : Focused on public sector expansion in core industries and private sector growth in non-core areas.
- (ii) Five-Year Plans : Emphasized heavy industries, infrastructure, and regional industrialization to reduce disparities, especially in the Second Plan.
- (iii) Industrial Licensing : The Industries (Development and Regulation) Act, 1951, regulated industrial growth and ensured resource allocation through licensing.
- (iv) Support for Small-Scale Industries (SSIs) : Encouraged SSIs through incentives, financial aid, and tax benefits to promote employment and reduce regional disparities.
- (v) Economic Reforms (1991) : Introduced liberalization, privatization, and globalization (LPG) to deregulate industries, attract FDI, and boost private sector participation.

These measures ensured balanced growth, modernization, and self-reliance in industrial development.

166. After the introduction of planning, industrial sector of the country witnessed an accelerated growth rate. Highlight and discuss the main features of India's industrial growth during the early phases of planning.

Ans :

FOREIGN 2014

- (iv) Following is not an achievement of economic planning.
- Growth and diversification of economic activities.
 - Development of economic and social infrastructure.
 - High rate of inflation.
 - Employment generation.

Ans :

OD 2004

- (c) Reduction in economic inequality
- (d) Employment opportunities
- (a) 1-D, 2-C, 3-B, 4-A
- (c) High rate of inflation

- 176.** Read the para given below and answer the questions that follow:

A nation's development heavily depends on its industrial sector, which provides more stable employment opportunities compared to the agricultural sector. However, at the time of India's independence, industrialists lacked sufficient capital and resources to enhance or expand their production capacities.

To address this, the Indian government implemented new foreign trade policies and promoted import substitution from independence until the 1980s. This inward-looking policy was applied across major economic sectors to strengthen India's industrial base and trade. Its primary aim was to restructure the economy by replacing imported goods with domestically produced ones. By substituting foreign goods with local production, the policy sought to protect Indian consumer goods from international competition. Extensive trade barriers were introduced to shield the domestic market, resulting in a significant boost in the production and sale of domestic products.

- (i) Write the correct sequence of alternator given in Column II by matching them with the respective terms in Column I:

	Column I		Column II
1.	Industrial Policy Resolution, 1956	A.	to courage farmers for adopting the HYV Technology
2.	Subsidies	B.	freedom from foreign aid

3.	Import Substitution Policy	C.	protection of domestic firms from foreign competition
4.	Self Reliance	D.	to regulate the private sector through a system of licensing

- A, C, D, B
- D, A, C, B
- C, A, B, D
- D, A, B, C

- (ii) The policy of import substitution was adopted to:

- Save foreign exchange
- To protect domestic Industries from foreign competition
- Both (a) and (b)
- Neither (a) nor (b)

- (iii) Schedule A of IPR 1956 included _____ industries that were directly under the _____ sector.

- 18, private
- 17, public
- 18, public
- 17, private

- (iv) Following is not a characteristic of small scale industry:

- They are labour intensive
- They promote regional equality
- They lead to socialistic pattern of society
- They contribute heavily towards India's foreign trade

Ans :

FOREIGN 2005

- (b) D, A, C, B
- (c) Both (a) and (b)
- (b) 17, public
- (d) They contribute heavily towards India's foreign trade

- 177.** Read the para given below and answer the questions that follow:

The Green Revolution transformed India from a food-deficient nation to one of the world's leading agricultural producers. Until 1967, the government primarily focused on expanding farmland, but the rapid population growth outpaced food production. This necessitated immediate and significant measures to boost

168. What do you mean by tariff and non-tariff barriers? Explain their impact on foreign trade.

Ans :

DELHI 2022

Tariff Barriers : These are taxes or duties imposed on imported goods to protect domestic industries and generate revenue. Examples include customs duties and import taxes.

Non-Tariff Barriers (NTBs) : These are non-tax measures used to restrict imports, such as quotas, licensing requirements, quality standards, and embargoes.

The import substitution policy had both positive as well as negative impacts on the economy:

Positive Impacts of Import Substitution Policy :

- (i) **Industrial Growth:** The industrial sector's contribution to GDP increased from 1(i)8% in 1950-51 to 2(iv)6% in 1990-9(i)
- (ii) **Diversification :** Industries diversified, producing a wide range of consumer and engineering goods, with sectors like electronics and automobiles benefiting from protection.
- (iii) **Investment Opportunities :** Encouragement of small-scale industries allowed individuals with limited capital to start businesses, promoting equitable growth.

Negative Impacts of Import Substitution Policy:

- (i) **Inefficient Public Monopolies :** Public sector enterprises dominated sectors, producing goods/services even when redundant.
- (ii) **Lack of Modernization :** Protectionist policies discouraged innovation, leading to outdated production methods.
- (iii) **Persistent Loss-Making Units :** Many unprofitable public enterprises continued to operate due to difficulty in closing government undertakings.

169. Evaluate the import substitution policy adopted by the policy makers to protect the domestic industries.

or

The policy of protection through tariffs and quotas was based on the notion that industries of developing countries cannot compete against the goods produced by more developed economies. Comment.

or

“Policy of import substitution can protect the domestic industry from foreign competition”. Do you agree? Give reasons in support of your answer.

Ans :

COMP 2017

In order to be self reliant, India has followed the strategy of replacing many imports by domestic production. This inward looking trade strategy was called ‘Import Substitution’.

Import Substitution refers to a policy of replacement or substitution of imports by domestic production. The main aim of this policy was to protect domestic industries from foreign competition to achieve the underlying objectives of self reliance and saving foreign exchange.

Reasons for Import Substitution: The policy of protection was based on the notion that industries of developing countries like India, were not in a position to compete against the goods produced by more developed economies. With protection, they would be able to compete in due course of time.

Restriction on import was necessary as there was a risk of drain of Foreign Exchange Reserves due to increasing imports.

Protection from imports took two forms:

- (i) **Tariffs** refer to taxes levied on imported goods. The main aim for imposing heavy duty on imported goods was to make them more expensive and discourage their use.
 - (ii) **Quotas** refer to fixing the maximum limit on the imports of a commodity by a domestic producer.
- Using the protection provided by the policy of tariffs and quotas, the domestic firms could expand without fear of competition from the foreign market.

170. India's foreign trade, limited by the inward looking trade-policies, faced a number of hurdles. Discuss the principal problems faced by India during 1950-1990 in foreign trade.

Ans :

OD 2010

India's foreign trade during 1950-1990 faced significant challenges due to inward-looking trade policies emphasizing self-reliance and import substitution. Key problems included:

- (i) **Limited Export Growth :** Focus on domestic production over export competitiveness led to stagnant export volumes, primarily consisting of low-value agricultural and raw material goods.
- (ii) **High Import Dependence :** Essential goods like machinery, petroleum, and technology had to be imported, causing trade deficits.
- (iii) **Restricted Market Access :** Protectionist policies and lack of export diversification limited India's access to global markets.

- (iv) Balance of Payments Crisis : Persistent trade deficits strained foreign exchange reserves, leading to external debt.
 - (v) Inefficiency in Production : Lack of global competition under import restrictions resulted in low-quality products, reducing export potential.
- These challenges highlighted the need for trade liberalization and global integration.

171. How does a country gain from its foreign trade during its growth process?

Ans :

FOREIGN 2019

Foreign trade benefits a country during its growth process in the following ways:

- (i) Access to Resources : Enables imports of essential goods, raw materials, and advanced technologies not available domestically, boosting productivity.
- (ii) Market Expansion : Exports allow domestic producers to access larger international markets, increasing production and income.
- (iii) Specialization and Efficiency : Promotes specialization based on comparative advantage, enhancing economic efficiency and global competitiveness.
- (iv) Foreign Exchange Earnings : Exports generate foreign currency, supporting imports and stabilizing the balance of payments.
- (v) Technology Transfer : Trade fosters the exchange of knowledge and innovation, aiding industrial and technological growth.
- (vi) Employment Generation : Expanding industries for export production creates job opportunities.
- (vii) Economic Diversification : Reduces reliance on a single sector, ensuring economic stability and resilience against shocks.

Overall, foreign trade accelerates economic growth, development, and global integration

172. The policy of protection encouraged the growth of domestic industries but at the same time proved to be an impediment. How?

Ans :

SQP 2020

The policy of protection supported domestic industries by shielding them from foreign competition, but it also had several drawbacks :

Positive Effects :

- (i) Domestic Industrial Growth : Protection allowed infant industries to develop without the threat of foreign competitors.

- (ii) Diversification : Sectors like electronics and automobiles grew, creating a foundation for industrial self-reliance.

Negative Effects :

- (i) Inefficiency : Lack of competition led to complacency, inefficiency, and low-quality production.
- (ii) Outdated Technology : Domestic industries were slow to modernize due to limited exposure to global innovations.
- (iii) High Costs : Consumers faced higher prices and limited choices because of the lack of foreign goods.
- (iv) Trade Isolation : Protectionist policies reduced India's global trade integration, restricting export growth and foreign exchange earnings. Thus, while protection fostered initial growth, it hindered long-term competitiveness and efficiency.

173. Highlight the main changes that took place with regard to the composition and direction of foreign trade after independence.

Ans :

COMP 2000

The composition of trade refers to the types of goods and services a country exports and imports. After independence, India witnessed notable changes in the composition of its foreign trade:

- (i) Decline in Agricultural Exports : The share of agricultural exports reduced as farm products were increasingly used domestically for industrial raw materials and self-consumption.
- (ii) Reduction in Conventional Exports : Exports of items like jute, tea, food grains, and minerals declined due to growing domestic demand.
- (iii) Rise in Manufactured Exports : The share of manufactured goods in total exports increased significantly, indicating industrial growth. These changes signified a structural shift from a primary-sector-dominated economy to one focused on secondary and tertiary sectors. The direction of trade reflects the countries involved in imports and exports.
- (i) Post-1950, India diversified its trade partners, moving beyond pre-independence reliance on the UK, USA, and Commonwealth nations.
- (ii) Key trading partners included the UAE, China, USA, Switzerland, Singapore, and others.
- (iii) The UAE emerged as a prominent trade partner, marking a notable change in India's trade direction.

- 174.** How far has Indian planning been successful in achieving its objectives during 1951-1990? Briefly assess the achievements and failures of planning in India during this period.

Ans :

DELHI 2002

Indian planning (1951-1990) aimed to achieve economic growth, self-reliance, modernization, and equitable distribution. Its assessment highlights:

Achievements :

- (i) **Economic Growth :** The GDP grew at an average rate of (iii) 5%, with significant progress in industrial and agricultural sectors.
- (ii) **Industrialization :** Establishment of heavy industries and infrastructure created a strong industrial base.
- (iii) **Agricultural Development :** Green Revolution increased food grain production, ensuring food security.
- (iv) **Self-Reliance :** Reduced dependence on foreign goods through import substitution policies.
- (v) **Social Justice :** Initiatives in health, education, and rural development aimed to reduce poverty and inequality.

Failures :

- (i) **Low Growth Rate :** Economic growth lagged behind potential, termed the "Hindu rate of growth."
- (ii) **Inefficiencies :** Public sector enterprises often operated inefficiently, incurring losses.
- (iii) **Unemployment :** High population growth undermined employment creation efforts.
- (iv) **Regional Disparities :** Economic benefits were unevenly distributed across states.
- (v) **Overregulation :** Excessive government control stifled private enterprise and innovation.

Indian planning succeeded in laying the foundation for economic development but faced challenges in achieving equitable and sustainable growth.

by the Planning Commission of India, which was responsible for improving the standard of living by efficiently allocating resources, boosting production, and creating employment opportunities for all. The Five-Year Plans served as centralized and integrated economic programs at the national level.

In the aftermath of partition, with the nation grappling with an influx of refugees, acute food shortages, and rising inflation, the first Five-Year Plan prioritized the primary sector, particularly agriculture and irrigation. These plans aimed to make India self-reliant, stimulate industrial growth, and extend development beyond urban areas to reach rural interiors.

- (i) Which of the following is not a dimension of the objective of economic and social justice?
 - (a) Reduction in economic inequality
 - (b) Uplifting the weaker sections of the society
 - (c) Development of the Indian economy
 - (d) Curbing concentration of economic power
- (ii) Economic growth is indicated by an increase in _____.
 - (a) Infrastructural facilities
 - (b) National Income
 - (c) Employment opportunities
 - (d) All of the above

- (iii) Match the following column:

	Column I		Column II
1.	Mixed economy	A.	Development of primary sector
2.	Objective of economic planning	B.	Co-existence of both private and public sector
3.	Self reliance	C.	To promote social interest over individual interest
4.	Focus of first plan	D.	Avoiding dependence on imports

- (a) 1-B, 2-C, 3-D, 4-A
- (b) 1-A, 2-B, 3-C, 4-D
- (c) 1-C, 2-B, 3-D, 4-A
- (d) 1-D, 2-C, 3-B, 4-A

CASE BASED QUESTION

- 175.** Read the paragraph given below and answer the questions that follow:

The Indian Government adopted Five-Year Plans as a formal planning framework after independence to ensure effective and balanced resource utilization. These plans were devised

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After independence, India's planners aimed at rapid industrialization to achieve economic self-reliance and reduce dependence on imports. The early planning period (1950s–1960s) under Five-Year Plans was instrumental in shaping the country's industrial base. This era emphasized heavy industries, public sector leadership, and an inward-looking trade strategy.

Key Features of Early Industrial Growth

- (i) **Public Sector Dominance & Heavy Industry Focus** : The government took the lead in setting up heavy, capital-intensive industries - steel, machinery, mining, and chemicals. Inspired by the Mahalanobis model, the Second Five-Year Plan prioritized capital goods to build a domestic industrial ecosystem. Investments in infrastructure—power, transport, communications—supported this expansion.
- (ii) **Import Substitution Industrialization (ISI)** : India adopted a policy of replacing imports with domestic production. High tariffs, quotas, and controls shielded local industries from foreign competition. The strategy aimed at self-reliance and development of indigenous technology. While it did foster initial growth, it also limited exposure to global best practices.
- (iii) **The License Raj** : Industrial licensing regulated investment decisions and capacity expansion. Initially meant to promote balanced growth, this system led to bureaucratic delays and inefficiencies. Foreign investment was restricted; technology transfers were preferred over direct equity inflows.
- (iv) **Financial & Institutional Support** : Development finance institutions like IFCI, IDBI, and SFCs provided long-term funds and technical guidance. Research bodies under CSIR built a technological base. These institutions eased capital constraints and enabled industry to grow beyond traditional boundaries.
- (v) **Private Sector Participation** : Though the state dominated the “commanding heights,” the private sector also expanded, often benefiting from protectionist policies. Small-scale industries received support through reservations and incentives to generate employment and broaden the industrial base.

- (vi) **Outcomes & Challenges**: Industrial production grew faster than in the colonial era. Key sectors like steel, machinery, and chemicals took root. However, overprotection bred inefficiency, low-quality outputs, and limited competitiveness. By the mid-1960s, it was clear that deeper reforms and better efficiency were needed to sustain growth.

- 167.** “Economists say that poor nations can progress only if they have a good industrial sector.”
Comment.

Ans :

SQP 2016

Industries play an important role in the growth and development of a country. The process of establishing more and more industries is called as industrialisation.

Following points highlight the importance of the process of industrialisation and industries for a developing economy like India:

- (i) **Rising Income Levels** : Industries drive economic growth, increasing national and per capita income due to higher productivity compared to agriculture.
- (ii) **Agricultural Advancement** : Industrialization supports agriculture by supplying essential inputs like tractors, fertilizers, and irrigation equipment.
- (iii) **Resource Utilization** : It enables efficient use of natural resources, boosting economic potential.
- (iv) **Infrastructure Development** : Expanding industries lead to growth in infrastructure, including transport, communication, and power sectors.
- (v) **Capital Formation** : Heavy investments in industries enhance income levels and savings, accelerating capital formation.

Boost to Foreign Trade : Industrialization fosters trade by encouraging the import of machinery and export of finished goods.

- (vi) **Employment Opportunities** : Industries provide stable jobs, reducing pressure on agriculture and addressing disguised unemployment.

This is why it is said that growth occurs with the spread of industrialisation. In fact, industrialisation has emerged as an inevitable route to the process of growth.

agricultural yield, which were introduced through the Green Revolution.

The Green Revolution centered on three key strategies: expanding farming areas, implementing double cropping on existing farmland, and using genetically improved seeds. It was a technological initiative that involved High Yielding Varieties (HYVs) of staple cereals like rice and wheat, irrigation or controlled water management, and the application of fertilizers and pesticides. This revolution enabled the government to stockpile sufficient food grains, ensuring reserves for times of shortage.

Despite its benefits, the Green Revolution carried notable risks. One concern was that it widened the gap between small and large farmers, as the latter were better positioned to afford the necessary inputs and thus benefited disproportionately. Additionally, India struggled to extend the use of HYV seeds beyond food grains, limiting their application across other crops and regions.

- (i) Which of the following statements is correct?:
- The second phase of Green revolution was also called as the wheat revolution.
 - Green revolution helped in removing the inequalities in rural poverty.
 - Green revolution helped in removing the dependence on monsoons for irrigation.
 - Government fixed the minimum support price to ensure fair returns to the farmers.
- (ii) In subsistence farming, production is meant for self consumption. (True/False).
- (iii) Identify the correct sequence of alternatives given in Column II by matching them with respective terms in Column I.

	Column I		Column II
1.	Land Ceiling	A.	increase in production of food grains using High Yielding Variety seeds.
2.	Land Reforms	B.	Portion of Agricultural produce sold in the market.
3.	Green Revolution	C.	Fixing the maximum limit of land holding for an individual.

4.	Marketed Surplus	D.	Change in the ownership of land (land to tillers)
----	------------------	----	---

- D, B, A, C
- A, C, D, B
- D, B, C, A
- C, D, A, B

- (iv) Which of the following does not qualify as a land reform measure.?
- Abolition of intermediaries.
 - Tenancy reforms.
 - Fixation of minimum support prices for crops.
 - Ceiling on land holdings.

Ans :

SQP 2007

- (d) Government fixed the minimum support price to ensure fair returns to the farmers.
- True
- (d) C, D, A, B
- (c) Ceiling on land holdings.

178. Read the para given below and answer the questions that follow:

The concept of subsidies emerged during the Green Revolution, with fertilizer subsidies enabling farmers to purchase fertilizers at prices below the Maximum Retail Price (MRP). These subsidies were initially justified as a means to encourage the adoption of new High Yield Variety (HYV) technology, particularly among small farmers, by mitigating the perceived risks associated with unfamiliar agricultural practices.

While subsidies played a crucial role in the early stages of the Green Revolution, there is now a growing consensus that they should be phased out as their original purpose has largely been fulfilled. Fertilizer subsidies, though intended to benefit farmers, also provide significant advantages to the fertilizer industry and impose a heavy financial burden on the government.

Additionally, over-subsidized fertilizers, such as urea, are often misused for non-agricultural purposes. Under the current “no denial” policy, anyone, including non-farmers, can purchase unlimited quantities of fertilizers. This has led to bulk purchases by unintended beneficiaries, diverting subsidies away from genuine farmers who truly need them.

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- (i) In the Industrial Policy Resolution 1956, Industries were classified into _____ categories.
- One
 - Two
 - Three
 - Four
- (ii) 'Under IPR 1956, the private sector was kept under state control through licensing system.' The objective of such policy was _____. (Choose the correct alternative)
- To promote regional equality
 - To ensure that production exceeds what the economy required.
 - To ensure that private sector enterprises should not create monopoly.
 - Both (a) and (c)
- (iii) Industrial Policy Resolution 1956, formed the basis of _____ five year plan.
- First
 - Second
 - Third
 - Fourth
- (iv) Read the following statements carefully and choose the correct alternative:
- Statement-I :** Under IPR 1956, First Category comprised Industries exclusively owned by state.
- Statement-II :** Second Category comprised of Industries where state will supplement private sector.
- Alternatives :
- Both the statements are true.
 - Both the statements are false.
 - Statement-I is true, Statement-II is false.
 - Statement-II is true, Statement-I is false.
- (v) Which of the following statements is incorrect?
- State had complete control over the industries, that were vital for economy.
 - Industries left for private sector were kept under control of government through licensing.
 - License was not required for expansion.
 - The purpose of licensing was to promote regional equality.
- (vi) Industrial Policy is a _____ combination/ pack of policy measures.

- Narrow
- Finite
- Comprehensive
- Superficial

Ans :

FOREIGN 2015

- (c) Three
- (d) Both (a) and (c)
- (b) Second
- (a) Both the statements are true.
- (c) License was not required for expansion
- (c) Comprehensive

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- (i) Karve
- (ii) (a) to accelerate the pace of capital formation.
- (iii) True
- (iv) (d) both (a) and (b)

180. Read the para given below and answer the questions that follow:

The performance of the Indian economy during the first seven Five-Year Plans (1950–1990) was satisfactory, though not exceptionally impressive. At the time of independence, India was industrially underdeveloped. However, over this period, industries became significantly more diversified, with a focus on public investment in the industrial sector.

The policy of import substitution protected domestic industries from foreign competition but failed to build a strong export surplus. While the public sector expanded considerably, it did not achieve the expected level of growth in the secondary sector. Excessive government regulations stifled entrepreneurial growth, as the lack of competition led to minimal innovation and modernization in the industrial sector.

Many Public Sector Undertakings (PSUs) incurred substantial losses due to inefficiencies, bureaucratic red tape, outdated technology, and similar issues. Despite being a drain on the nation's limited resources, these PSUs continued to operate, as closing government enterprises was often challenging.

On the agricultural front, the Green Revolution helped India achieve near self-sufficiency in food grain production. However, by the 1990s, the need for economic policy reforms became evident to address inefficiencies and adapt to a rapidly changing global economic environment, aiming to achieve sustainable growth.

- (i) Which of the following was not a reason for the public sector's prominent role in the early phase of Indian Economic Planning?
 - (a) Private entrepreneurs lacked sufficient capital for investment.
 - (b) Government aimed at social welfare.
 - (c) The market was big enough to encourage private industrialists for investment.
 - (d) The government wanted to protect the indigenous producers from the foreign competition.

- (ii) Inward looking trade strategy aimed at -----.

- (iii) State whether the given statement is true or false: Mechanization of the Indian agriculture was one of the cause of Green Revolution in India.

- (iv) Read the following statements - Assertion (A) and Reason (R)

Assertion (A) : Many public sector undertakings incurred huge losses due to operational inefficiencies.

Reason (R) : Red-tapism was one of the reasons for continuation of such enterprises.

Select the correct alternative from the following:

- (a) Both Assertion (A) and Reason (R) are true and reason is the correct explanation of assertion.
- (a) Both Assertion (A) and Reason (R) are true and reason is the not correct explanation of assertion.
- (c) Both Assertion (A) and Reason (R) are true.
- (d) Both Assertion (A) and Reason (R) are false.

Ans :

OD 2012

- (i) (c) Private entrepreneurs lacked sufficient capital for investment.
- (ii) Protecting domestic industries from international competition.
- (iii) True
- (iv) (c) Both Assertion (A) and Reason (R) are true

181. The adoption of a socialist framework as the national objective necessitated that industries of strategic importance and those serving public utility functions remain under the public sector's control. Additionally, industries deemed essential and requiring significant investment were also to be managed by the public sector.

To implement this vision effectively, the Government of India classified industries into three categories. This classification aimed to ensure the government's active involvement, either directly or indirectly, in guiding industrial development and fostering economic growth in alignment with socialist principles.

- (i) Which of the following is not a shortcoming of the Green Revolution?
- Risk of pest attack
 - Limited crops
 - Inadequate social infrastructure
 - Regional imbalance
- (ii) Why should subsidies be provided?
- To encourage the farmers to adopt the new technology.
 - The new technology is found very profitable
 - Poor farmers cannot afford the cost of new technology.
 - All of the above
- (iii) _____ implies use of advanced technology:
- Modernization
 - Globalization
 - Privatization
 - Liberalization
- (iv) Match the following and choose the correct alternative:

	Column I		Column II
1.	Prime Minister	A.	Industries to be left to the private sector
2.	Karve Committee, 1955	B.	Quantity of goods that can be imported.
3.	Quota	C.	Using small-scale industries to promote rural development.
4.	Schedule C, IPR 1956	D.	Chairperson of the planning commission

- 1-B, 2-A, 3-D, 4-C
- 1-A, 2-B, 3-C, 4-D
- 1-D, 2-C, 3-B, 4-A
- 1-A, 2-B, 3-D, 4-C

Ans :

COMP 2009

- (i) (c) Inadequate social infrastructure
(ii) (d) All of the above
(iii) (a) Modernization
(iv) (c) 1-D, 2-C, 3-B, 4-A

179. Read the para given below and answer the questions that follow:

At the time of independence, Indian industrialists did not have the capital to undertake investment in industrial ventures required for the development of Indian economy nor was the market big enough to encourage industrialists to undertake major projects even if they had the capital to do so. It was mainly for this reason that the government had to play an extensive role in promoting industrial development in the country.

In spite of the contribution made by the public sector to the growth of the Indian economy, there has been criticism of the performance of many public sector enterprises. Many public sector firms incurred huge losses but continued to function because it is difficult to close a government undertaking even if it is a drain on the nation's limited resources. The excessive regulations through the licensing system prevented firms from becoming more efficient as more time was spent in obtaining the license rather than on thinking about productivity. The protection from foreign competition made the producers aware that they had a captive market and thus, they had no incentive to improve the quality of their goods.

- (i) In 1955, the Village and Small-Scale Industries Committee, also called the _____ committee, noted the possibility of using small scale industries for promoting rural development.
- (ii) Why did Indian planners emphasize the need for rapid industrial development?
- To accelerate the pace of capital formation.
 - For promoting export substitution.
 - To restrict foreign investment.
 - To control the private sector.
- (iii) Permission or approval to start an industry with a certain capacity in a specified area is called a license. (True/False)
- (iv) During the period 1951-90, Indian industry was faced with the following problems.
- Technological backwardness
 - Low productivity
 - Rapid growth of population
 - Both (a) and (b)

Ans :

DELHI 2011

CHAPTER 8

LIBERALISATION, PRIVATISATION AND GLOBALISATION : AN APPRAISAL

SUMMARY

1. ECONOMIC CRISIS OF 1991

Factors Leading to the Economic Crisis of 1991 are as follows :

1. Adverse balance of payment
2. Depletion of foreign exchange reserves
3. Increase in prices
4. Increase in fiscal deficit
5. Poor performance of public sector undertakings

2. MAIN FEATURES OF THE NEW ECONOMIC POLICY

Main features of the new economic policy are as follows :

1. **Liberalization** : Liberalization of the economy means its freedom from direct or physical control imposed by the Government.
2. **Privatization** : It means transfer of ownership, management and control of public sector enterprises to the entrepreneurs in the private sector.
3. **Globalization** : Globalization means integrating the national economy with the world economy through removal of barriers on international trade and capital movements.

3. REFORMS UNDER LIBERALIZATION

3.1 Industrial Sector Reforms or Deregulation of Industrial Sector

This included reduction in industrial licensing, decrease in the role of public sector, de-reservation under small scale industries.

1. Industrial licensing was abolished for almost all products except for some industries which are of strategic importance for a nation like alcohol, cigarettes, hazardous chemicals etc.
2. Decrease in the role of public sector : The only industries which are reserved for the public sector are defense equipments, atomic

energy generation and railway transport.

3. De-reservation of production by small scale industries.
4. Price determination by market forces of demand and supply.
5. Import of capital goods-Freedom to import capital goods and technology in order to develop strong infrastructure base of the country.

3.2 Financial Sector Reforms

Financial sector includes financial institutions such as commercial banks, investment banks, stock exchange operations and foreign exchange market.

1. To reduce the role of RBI from regulator to facilitator of financial sector.
2. Establishment of private sector banks which increase competition.
3. Foreign investment limit in banks was raised to around 51%.
4. Those banks which fulfilled certain conditions were given freedom to set up new branches without the approval of RBI.

3.3 Fiscal / Taxation Reforms

These refer to reforms in government's taxation and public expenditure policies, which are collectively known as its 'fiscal policy'.

1. Reduction in direct taxes like Income tax and Corporation tax.
2. Reforms in indirect taxes to facilitate the establishment of a common national market for goods and services.
3. Simplification of tax paying procedure to encourage better compliance on the part of tax payers.

3.4 Foreign Exchange Reforms

1. Devaluation of rupee which encouraged exports and discouraged imports.
2. Determination of the foreign exchange rate through market forces of demand and supply.

4. **Local Body Taxes** : Taxes imposed by municipalities and other local authorities, such as property tax, are excluded from GST.

10.3 Taxes That Have Been Subsumed Under GST

The implementation of GST has led to the unification of several indirect taxes at both central and state levels. These include

1. Central level taxes. Central excise duty, Service tax and Central sales tax.
2. State level taxes. Entertainment tax

10.4 Types of GST

GST in India is categorized into four types, ensuring a seamless taxation process across different jurisdictions. These are :

1. **Central GST (CGST)** : It is levied and collected by the central government on any transaction of goods and services that takes place within a state.
2. **State GST(SGST)** : It is the tax levied and collected by the state government on every intra-state (within one state) transaction of goods and services.
3. **Union Territory GST(UTGST)** : It is the GST applicable on goods and services transactions that take place in any of the five union territories of India.
4. **Integrated GST(IGST)** : It is applicable on interstate(between two States) transaction of goods and services.

10.5 Advantages of GST

The implementation of GST has brought significant benefits to the Indian economy, which include :

1. It has fostered economic growth.
2. Introduction of a single tax has led to ease of doing business for enterprises.
3. It has helped in attracting foreign investment.
4. It has insured better tax compliance.
5. The cascading effect of GST has led to reduction in the cost of goods.

10.6 Objectives of GST

The Goods and Services Tax (GST) was introduced with the following key objectives :

1. To eliminate multiple taxes.
2. To improve tax compliance.
3. To boost economic growth.
4. To increase the ease of doing business.
5. To reduce the overall tax burden.

6. To subsume all indirect taxes at centre and state level.
7. To eliminate the cascading effect of indirect taxes on a single transaction.
8. To promote consumption based tax instead of manufacturing.

MULTIPLE CHOICE QUESTION

1. The process of _____ refers to the transfer of ownership, management and control of public sector enterprises to private sector entrepreneurs.
 - (a) Liberalization
 - (b) Privatization
 - (c) Globalization
 - (d) Nationalization

Ans :

COMP 2024

(b) Privatization
Privatization involves reducing government control and ownership of public sector enterprises by transferring them to private entities to improve efficiency and competition.

2. _____ is the rate at which the central bank of a country lends money to commercial banks for short-term needs.
 - (a) Repo Rate
 - (b) Reverse Repo Rate
 - (c) Bank Rate
 - (d) Lending Rate

Ans :

OD 2024

(a) Repo Rate
Repo Rate is the short-term lending rate at which the central bank lends funds to commercial banks, influencing the overall money supply in the economy.

3. The _____ refers to the minimum percentage of net demand and time deposits that commercial banks must keep with the central bank.
 - (a) Cash Reserve Ratio (CRR)
 - (b) Statutory Liquidity Ratio (SLR)
 - (c) Repo Rate
 - (d) Open Market Operations

Ans :

OD 2023

(a) Cash Reserve Ratio (CRR)

4. Market driven globalization has widened the economic disparities among nations and people.
5. Spread of MNC in the country as a consequence of LPG policies has resulted in large scale spread of consumerism and has induced the masses to spend beyond their means.
6. LPG has accelerated the growth of Indian economy but it is lopsided as it is increasingly relying on service sector of the economy.
7. The growth process has been concentrated more in the urban areas.
8. Agricultural sector has suffered a serious neglect and its growth rate has depleted.
9. Economic reforms have imposed limits on the growth of public expenditure specially in social sectors.

9. DEMONETIZATION

It is a situation where the central bank of the country withdraws the old currency notes of certain denomination as an official mode of payment.

On 8th November 2016, the Government of India announced the demonetization of ₹500 and ₹1000 bank notes of the Mahatma Gandhi series and the issuance of new ₹500 and ₹2000 bank notes of the Mahatma Gandhi series in the exchange for the old bank notes.

9.1 History of Demonetization

In India the Indian government had demonetized bank notes on two prior occasions once in 1946 and again in 1978 to combat tax evasion by black money held outside the formal economic system.

9.2 Aims of Demonetization

The demonetization initiative was implemented with the following primary objectives :

1. Curb Corruption : To penalize illicit activities and reduce corruption.
2. Eliminate Counterfeit Currency : To remove fake currency from circulation.
3. Reduce Tax Evasion : To bring more income under the tax net and improve compliance.
4. Promote Formal Banking : To channelize savings into the formal banking system.
5. Shift to Digital Economy : To encourage the adoption of digital payment systems and reduce reliance on cash transactions.

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9.3 Impact of Demonetization

The demonetization drive had profound effects on the Indian economy, which include :

1. Slowdown in the growth process due to reduction in both demand and supply.
2. decline in the stock of black money.
3. increase in bank deposits.
4. decline in the indirect and corporate taxes to the extent of slowdown in the growth process.

10. GOODS AND SERVICES TAX (GST)

The Goods and Services Tax (GST) is an indirect tax levied on the supply of goods and services. GST Act was passed in the Parliament on 24th March, 2017 and it came into effect from 1st July, 2017. Before the implementation of Goods and Services Tax (GST) various central, state and local area taxes were levied in India. These indirect taxes have now been subsumed under GST which is based on the principle of 'One Nation One Tax.'

10.1 Features of GST

The Goods and Services Tax (GST) is a revolutionary reform in India's taxation system. Its distinctive features are as follows :

1. It is a comprehensive tax as various indirect taxes have been merged in this.
2. It is a multi-stage tax as it is proposed to be levied at all stages.
3. It is a value added tax because it is levied on value addition at each stage of the supply chain.
4. It is a destination based tax as the tax would accrue to the tax authorities which have jurisdiction over the place of consumption.

10.2 Taxes Not Merged Under GST

Although GST has subsumed a majority of indirect taxes in India, certain taxes remain outside its scope due to their unique nature and the need for state or local government control. These taxes include :

1. **Customs Duty** : Duties levied on the import and export of goods remain outside the purview of GST.
2. **Taxes on Petroleum Products** : GST excludes taxes on petrol, diesel, aviation fuel and natural gas.
3. **Taxes on Alcoholic Drinks** : Excise duty and VAT on alcoholic beverages are not subsumed under GST.

- 12.** As a consequence of the policy of liberalization, there has been a shift in the role of RBI from a regulator to that of a _____.

(a) Controller
(b) Coordinator
(c) Facilitator
(d) None of the above

Ans :

COMP 2004

(c) Facilitator

- 13.** Following is not a reason which led to the introduction of economic reforms in 1991 :

(a) Balance of payment crisis
(b) Failure of the public sector
(c) Lack of competition for domestic industries
(d) Increase in prices

Ans :

DELHI 2001

(c) Lack of competition for domestic industries

- 14.** Following is a policy initiative to promote privatization

(a) Transfer of ownership of a public sector undertaking to the private sector
(b) Disinvestment
(c) Entry of private sector Industries into industries reserved exclusively for the public sector
(d) All of the above

Ans :

OD 2003

(d) All of the above

- 15.** Following is not an advantage of GST :

(a) Development of a common national market.
(b) Boost to foreign investment.
(c) Make our products more competitive in the international market.
(d) Difference in prices throughout the country.

Ans :

FOREIGN 2007

(d) Difference in prices throughout the country.

- 16.** Which of the following GST is applicable in case of transactions of goods and services between States?

(a) UTGST
(b) IGST
(c) SGST
(d) CGST

Ans :

SQP 2009

(b) IGST

- 17.** Why there was a need for economic reforms in India?

(a) Due to fiscal deficit
(b) Due to adverse BOP
(c) Rise in prices
(d) All of the above

Ans :

COMP 2002

(d) All of the above

- 18.** How much loan was provided by World Bank and IMF during the nineties to bail India out of the crisis?

(a) \$10 million
(b) \$10 billion
(c) \$7 billion
(d) \$20 billion

Ans :

DELHI 2005

(c) \$7 billion

- 19.** In which year did India adopt the economic reforms?

(a) 1991
(b) 1993
(c) 1998
(d) 2001

Ans :

OD 2011

(a) 1991

- 20.** What is the main feature of New Economic Policy?

(a) Liberalization
(b) Privatization
(c) Globalization
(d) All of the above

Ans :

FOREIGN 2014

(d) All of the above

- 21.** Where is the headquarters of WTO located?

(a) Italy
(b) Geneva
(c) New York
(d) Washington

Ans :

COMP 2017

(b) Geneva

- 22.** In which year was the World Trade Organization (WTO) founded? (Choose the correct alternative)

(a) 1990
(b) 1995
(c) 1992
(d) 1998

CRR is a quantitative tool used by the central bank to regulate liquidity in the economy by mandating banks to maintain a specified percentage of their deposits with the central bank.

4. The main objective of _____ under the 1991 economic reforms was to free the economy from government-imposed controls and restrictions.

(a) Globalization
(b) Liberalization
(c) Privatization
(d) Outsourcing

Ans :

OD 2011

(b) Liberalization

Liberalization aimed at reducing government control in business operations by eliminating licensing and other restrictive practices, thus promoting a market-driven economy.

5. In the context of demonetization, _____ refers to the withdrawal of specific currency denominations as an official medium of exchange.

(a) Globalization
(b) Privatization
(c) Disinvestment
(d) Demonetization

Ans :

FOREIGN 2012

(d) Demonetization

Demonetization involves ceasing the validity of certain currency notes to curb corruption, black money and promote a cashless economy.

6. Goods and Services Tax (GST) in India is a _____ tax, which is levied on the supply chain at each stage based on the value added.

(a) Direct
(b) Value-added
(c) Fixed
(d) Income

Ans :

SQP 2016

(b) Value-added

GST is a value-added tax applied at every stage of the supply chain, ensuring tax transparency and eliminating cascading effects.

7. The World Trade Organization was founded in 1995 as the successor organization to :

(a) GATT
(b) SAARC
(c) ASEAN
(d) G-20

Ans :

FOREIGN 2010

(a) GATT

8. Under the financial sector reforms, foreign investment limits in banks were raised to _____, promoting competition in the banking sector.

(a) 100%
(b) 51%
(c) 49%
(d) 75%

Ans :

COMP 2023

(b) 51%

The reforms aimed to enhance foreign participation in the banking sector by allowing a majority stake, thus increasing competitiveness and efficiency.

The _____ is an indirect tax levied on goods and services, introduced in India with the principle of 'One Nation, One Tax.'

(a) Customs Duty
(b) Excise Duty
(c) Goods and Services Tax (GST)
(d) Corporation Tax

Ans :

DELHI 2021

(c) Goods and Services Tax (GST)

GST replaced multiple indirect taxes in India, unifying the taxation system for seamless business operations across states.

10. _____ Under the New Economic Policy aimed to improve tax compliance by simplifying procedures and reducing direct taxes.

(a) Fiscal Reforms
(b) Trade Reforms
(c) Industrial Reforms
(d) Exchange Reforms

Ans :

OD 2018

(a) Fiscal Reforms

Fiscal reforms included simplifying the tax-paying process and reducing direct taxes like income and corporation taxes to enhance compliance and reduce evasion.

11. When did India join the WTO?

(a) 1995
(b) 1947
(c) 1951
(d) 1985

Ans :

SQP 2008

(a) 1995

- (a) Complete ban on foreign direct investments in strategic sectors
- (b) Introduction of quantitative restrictions on exports
- (c) Long-term trade policy promoting free trade and reduction of tariffs
- (d) Increased dependence on government funding for industrial growth

Ans :

FOREIGN 2005

- (c) Long-term trade policy promoting free trade and reduction of tariffs

Globalization reforms included removing trade barriers, reducing tariffs and promoting free trade to integrate the Indian economy with the global market.

- 40.** The Goods and Services Tax (GST) was introduced to simplify India's taxation structure. Which of the following features distinguishes GST from previous indirect tax systems?

- (a) GST is levied only on luxury goods and services
- (b) GST allows multiple taxes on the same transaction for better revenue generation
- (c) GST is a value-added tax applied at each stage of the supply chain with input credit benefits
- (d) GST eliminates the need for state-level taxation

Ans :

SQL 2011

(c) GST is a value-added tax applied at each stage of the supply chain with input credit benefits
GST is a comprehensive, multi-stage tax levied at every stage of the supply chain, ensuring no cascading effect due to the input tax credit mechanism.

- 41.** Outsourcing is a result of globalization that has benefited businesses worldwide. How has outsourcing impacted the global economy?

- (a) It has reduced employment opportunities in developed nations
- (b) It has led to increased specialization and cost-efficiency for businesses
- (c) It has minimized the need for skilled labor in developing countries
- (d) It has promoted protectionist policies among nations

Ans :

COMP 2014

(b) It has led to increased specialization and cost-efficiency for businesses

Outsourcing allows businesses to access specialized services at lower costs, fostering efficiency and interdependence in the global economy.

- 42.** The World Trade Organization (WTO) was established to promote global trade. Which of the following principles does the WTO uphold to ensure free and fair trade among nations?

- (a) Imposing restrictions on exports to protect domestic industries
- (b) Removing both tariff and non-tariff barriers to facilitate multilateral trade
- (c) Encouraging unilateral trade agreements over multilateral cooperation
- (d) Limiting the involvement of developing nations in global trade discussions

Ans :

DELHI 2019

- (b) Removing both tariff and non-tariff barriers to facilitate multilateral trade

The WTO aims to eliminate trade barriers to ensure free and fair trade among its member nations, promoting economic cooperation and growth.

- 43.** What was one of the significant achievements of the LPG reforms in India, particularly regarding the service sector?

- (a) Decline in IT and software exports due to increased competition
- (b) Structural transformation driven by rapid growth in the service sector
- (c) Increased fiscal deficit due to excessive reliance on service-based industries
- (d) Reduction in GDP growth rates following the reforms

Ans :

OD 2017

- (b) Structural transformation driven by rapid growth in the service sector

The LPG reforms led to significant growth in the service sector, contributing to structural changes and higher GDP growth rates.

- 44.** Under the demonetization policy of 2016, old currency notes were withdrawn. What was one of the primary objectives of this move?

- (a) To encourage cash transactions over digital payments
- (b) To promote corruption-free governance by penalizing illicit activities
- (c) To reduce the money supply and discourage banking habits among citizens
- (d) To eliminate the usage of small denominations in daily transactions

Ans :

COMP 2019

(b) 1995

23. When was VAT introduced in most of the States of India?

- (a) 1995
- (b) 2001
- (c) 2005
- (d) 2006

Ans :

DELHI 2015

(c) 2005

24. What is the complete name of the world bank?

- (a) International Monetary Fund
- (b) International Bank for Reconstruction and Development.
- (c) World Trade Organization.
- (d) General Agreement on Trade and Tariff.

Ans :

SQP 2019

(b) International Bank for Reconstruction and Development.

25. The term “disinvestment” is frequently used in the context of privatization in India. What does it signify and how does it impact the functioning of public sector enterprises?

- (a) Completely shutting down non-profitable public sector enterprises
- (b) Selling equity or shares of public sector companies to private investors
- (c) Allocating additional government funds to PSU for modernization
- (d) Merging public sector units to reduce operational inefficiencies

Ans :

COMP 2012

(b) Selling equity or shares of public sector companies to private investors

Disinvestment refers to the transfer of ownership and management of public sector units to private entities, often by selling shares or equity, as part of privatization reforms.

26. The Goods and Services Tax (GST) is a revolutionary reform introduced to simplify indirect taxation in India. Which of the following types of taxes were merged under GST to create a unified tax system?

- (a) Corporate tax and income tax levied by the government
- (b) State-level sales tax, central excise duty and service tax
- (c) Property tax, entertainment tax and capital

gains tax

(d) Import duties, customs duties and taxes on petroleum products

Ans :

DELHI 2016

(b) State-level sales tax, central excise duty and service tax

GST subsumed multiple indirect taxes such as state sales tax, central excise duty and service tax into one unified system to eliminate the cascading effect of taxes and simplify compliance.

27. Selective Credit Controls, a qualitative monetary policy tool, are implemented by the central bank for what purpose in the context of credit flow in the economy?

- (a) To uniformly distribute credit across all economic sectors
- (b) To restrict or encourage credit to specific sectors based on economic needs
- (c) To increase the legal reserve ratio for commercial banks
- (d) To mandate fixed interest rates for all commercial lending

Ans :

OD 2023

(b) To restrict or encourage credit to specific sectors based on economic needs

Selective Credit Controls allow the central bank to direct credit to priority sectors or limit credit flow to speculative activities, thereby supporting economic objectives.

28. One of the primary objectives of the New Economic Policy introduced in 1991 was to enhance economic efficiency and growth by reducing direct government controls. Which of the following best describes this objective?

- (a) Increasing the fiscal deficit to stimulate demand
- (b) Encouraging private sector participation through liberalization
- (c) Strengthening public sector ownership and management
- (d) Promoting state-led industrialization over private enterprise

Ans :

SQP 2011

(b) Encouraging private sector participation through liberalization

The New Economic Policy aimed to liberalize the economy by reducing government-imposed controls, encouraging private sector growth and promoting market-driven policies.

3.5 Trade and Investment Policy Reforms

Liberalization of trade and investment regime was initiated to increase international competitiveness of industrial production and also foreign investments and technology into the economy. These reforms included –

1. Removal of quantitative restrictions on imports and exports.
2. Removal of export duties.
3. Reduction in import duties.
4. Relaxation in import licensing system.

4. PRIVATIZATION

Privatization refers to transfer of ownership, management and control of government sector enterprises to the private sector. It can be done in two ways :

1. By withdrawal of the government from ownership and management of public sector companies.
 2. By outright sale of public sector companies.
- Privatisation of the public sector undertakings by selling off part of the equity of PSU to the private sector is known as disinvestment.

5. GLOBALIZATION

It is the outcome of the policies of liberalization and privatization. Globalization refers to free interaction among all the countries of the world in various fields like trade, technology loans, investment, outsourcing etc.

5.1 Features of Globalization

Features of Globalization are as follows :

1. Increase in equity limit of foreign investment.
2. Long term trade policy which remove almost all restrictions on external trade.
3. Reduction in tariffs.
4. Withdrawal of quantitative restrictions.
5. Modifications in technology agreements.
6. Partial convertibility of rupee.

6. WORLD TRADE ORGANIZATION (WTO)

The World Trade Organization (WTO) was founded in 1995 as the successor organization to the General Agreement on Trade and Tariff (GATT). The WTO agreements cover trade in goods and services to facilitate bilateral and multilateral trade by removing tariff and non-tariff barriers.

7. OUTSOURCING

In outsourcing, a company hires regular service from external sources, mostly from other countries, which was previously provided internally or from within the country like legal advice, computer service, advertisement etc.

8. AN ASSESSMENT OR AN APPRAISAL OF LPG POLICIES

The Liberalization, Privatization and Globalization (LPG) reforms of 1991 marked a turning point in India's economic history. These policies aimed to integrate the Indian economy with the global market, enhance efficiency and promote overall growth. However, the impact of these reforms has been a mix of significant achievements and notable limitations.

Achievements

1. There has been an increase in the overall growth rate (GDP) during the reform period. Post LPG policies, the growth of GDP has become as high as 8% per annum.
2. Stimulant to industrial production : Due to LPG policies, the IT industry in India has achieved global recognition.
3. Structural changes : The growth rate of about 8% is mainly driven by growth in the service sector.
4. Increase in foreign direct investment and foreign exchange reserves.
5. India is now seen as a successful exporter of auto parts, engineering goods, IT software, textiles etc.
6. Inflation has been brought under control from 16.7% in 1991 to around 2.9% in 2017-18.
7. Fiscal deficit has reduced from 8.5% to nearly 3.5% of GDP.
8. Deficit in Balance of Payments has also reduced.

Limitations

1. Though the GDP growth rate increased in the reform period, yet the reform led growth did not generate sufficient employment opportunities in the country.
2. Due to globalization, our economy was open to greater flow of goods and services from developed countries. This reduced the demand for domestic goods.
3. Disinvestment initiated by government policies was not much successful because the proceeds were not used for the development of the country.

- 34.** Which of the following significant achievements is attributed to the LPG reforms of 1991, particularly in the industrial and service sectors?
- Widening fiscal and trade deficits due to increased imports
 - Decline in GDP growth rates driven by public sector inefficiencies
 - Growth in IT and service sectors, gaining global recognition for Indian industries
 - Reduction in foreign exchange reserves due to over-reliance on global markets

Ans :

FOREIGN 2001

(c) Growth in IT and service sectors, gaining global recognition for Indian industries
The LPG reforms stimulated industrial and service sector growth, particularly in the IT industry, establishing India as a global leader in these sectors.

- 35.** What was the primary objective of industrial sector reforms introduced under liberalization and which of the following was a significant outcome of these reforms?
- Expansion of public sector dominance in all industries
 - Abolishment of industrial licensing for most products, except strategic industries
 - Strict government control over the import of capital goods
 - Nationalization of small-scale industries for better efficiency

Ans :

COMP 2007

(b) Abolishment of industrial licensing for most products, except strategic industries
Industrial sector reforms aimed to deregulate the industry by abolishing licensing for most products, reducing government interference and promoting market-driven growth.

- 36.** In the context of India's fiscal policy reforms under the New Economic Policy, which measure was taken to simplify tax compliance and improve economic efficiency?
- Increasing indirect taxes to generate higher revenue
 - Simplifying tax procedures to encourage better compliance from taxpayers
 - Introducing additional taxes on exports to boost foreign exchange reserves
 - Eliminating all forms of direct taxation

Ans :

DELHI 2009

(b) Simplifying tax procedures to encourage better compliance from taxpayers
Fiscal reforms focused on reducing direct taxes and simplifying tax procedures to improve compliance and efficiency in the taxation system.

- 37.** What are the implications of "disinvestment" in the context of India's privatization efforts under the New Economic Policy?
- Government retaining complete ownership of public sector enterprises
 - Sale of equity in public sector undertakings to private investors
 - Expansion of the public sector through increased government investment
 - Nationalization of private enterprises for strategic purposes

Ans :

OD 2002

(b) Sale of equity in public sector undertakings to private investors
Disinvestment refers to the government selling its stake in public sector enterprises to private players, promoting privatization and reducing government control.

- 38.** What does the term "globalization" signify in the context of India's New Economic Policy and how has it impacted the nation's economic structure?
- Expansion of the public sector to cater to global demand
 - Removal of barriers on international trade and capital movements to integrate the Indian economy with the world economy
 - Complete reliance on domestic goods and services to reduce imports
 - Increasing focus on rural development to counter urbanization

Ans :

SQP 2003

(b) Removal of barriers on international trade and capital movements to integrate the Indian economy with the world economy
Globalization, as per the New Economic Policy, aimed at removing trade and investment restrictions, allowing the Indian economy to integrate with the global market, thereby boosting trade and investment.

- 39.** Which of the following was a key feature of globalization introduced under the 1991 economic reforms and how did it transform the Indian economy?

29. The World Trade Organization (WTO), established as the successor to GATT, plays a crucial role in regulating international trade. Which of the following agreements or principles under WTO aim to facilitate free trade among nations?

- (a) Imposing export subsidies to boost domestic industries
- (b) Establishing trade barriers to protect national interests
- (c) Removing tariff and non-tariff barriers to promote multilateral trade
- (d) Prioritizing bilateral trade agreements over multilateral engagements

Ans :

FOREIGN 2021

(c) Removing tariff and non-tariff barriers to promote multilateral trade

The WTO focuses on removing trade restrictions like tariffs and non-tariff barriers to facilitate free trade among member nations and promote global economic integration.

30. What is the rationale behind the government's demonetization initiative, specifically the withdrawal of 500 and 1000 notes in 2016 and how was it expected to impact the economy?

- (a) To discourage digital payments and boost cash transactions
- (b) To increase the fiscal deficit by reducing revenue collection
- (c) To curb corruption, eliminate counterfeit currency and promote formal banking
- (d) To reduce tax compliance among individuals and businesses

Ans :

SQL 2018

(c) To curb corruption, eliminate counterfeit currency and promote formal banking
The demonetization initiative aimed to reduce corruption, tackle counterfeit currency and encourage formal banking and digital payments, promoting a transparent and efficient economy.

31. The Goods and Services Tax (GST) in India introduced multiple reforms to simplify the taxation system. Which unique characteristic of GST ensures that tax is applied at all stages of the supply chain while providing credit for taxes paid on inputs?

- (a) It is a single tax applicable across the entire nation
- (b) It is a multi-stage tax levied at every stage of production and distribution

- (c) It is a consumption-based tax applicable only at the final stage
- (d) It is a fixed tax rate unaffected by the supply chain process

Ans :

COMP 2010

(b) It is a multi-stage tax levied at every stage of production and distribution

GST ensures that tax is levied at all stages of production and supply, but input tax credits prevent double taxation and reduce the cascading effect.

32. The foreign exchange reforms introduced under the LPG policy aimed to enhance India's trade competitiveness. Which of the following measures was a part of these reforms?

- (a) Fixing the exchange rate by the government to stabilize imports
- (b) Devaluing the rupee to encourage exports and discourage imports
- (c) Eliminating all foreign investment in domestic markets
- (d) Restricting private players from participating in the forex market

Ans :

DELHI 2008

(b) Devaluing the rupee to encourage exports and discourage imports

Devaluation of the rupee made Indian exports more competitive internationally and discouraged unnecessary imports, boosting foreign exchange reserves.

33. Outsourcing is a key feature of globalization that gained prominence after the 1991 economic reforms. How does outsourcing benefit companies and nations involved?

- (a) By increasing import duties on outsourced goods and services
- (b) By providing specialized services from external sources at lower costs
- (c) By reducing the demand for skilled labor in the global market
- (d) By encouraging companies to eliminate service-based operations

Ans :

OD 2004

(b) By providing specialized services from external sources at lower costs

Outsourcing allows companies to access specialized services from other nations at reduced costs, enhancing efficiency and global trade interconnectivity.

Ans :

FOREIGN 2015

(b) To promote corruption-free governance by penalizing illicit activities

The demonetization drive aimed to curb black money, reduce corruption and promote formal banking and digital transactions for a more transparent economy.

45. The New Economic Policy of 1991 in India introduced the concept of _____, which aims at integrating the national economy with the global economy by removing trade and investment barriers.

- (a) Liberalization
(b) Privatization
(c) Globalization
(d) Disinvestment

Ans :

SQP 2006

(c) Globalization

Globalization, under the New Economic Policy, focuses on removing restrictions on international trade and capital movements, thereby integrating the Indian economy with the world economy.

46. Match the items of Column-I to Column-II & choose the correct alternative :

	Column-I		Column-II
A.	Goods produced by small scale industries were de-reserved.	(i)	Tax Reforms
B.	Foreign Investment limit raised to around 50%.	(ii)	Foreign Exchange Reforms
C.	The rate of corporation tax has been reduced.	(iii)	Financial Sector Reforms
D.	Market determined exchange rate system was adopted.	(iv)	Deregulation of Industrial Sector

- (a) A-(iv), B-(iii), C-(i), D-(ii)
(b) A-(iii), B-(iv), C-(i), D-(ii)
(c) A-(iv), B-(iii), C-(ii), D-(i)
(d) A-(iii), B-(iv), C-(ii), D-(i)

Ans :

OD 2021

- (a) A-(iv), B-(iii), C-(i), D-(ii)

47. The vaccination campaign for containing COVID-19 is an example of _____ medicine. (Fill up the blank with correct alternative)

- (a) Preventive
(b) Curative
(c) Social
(d) Emotional

Ans :

OD 2021

- (a) Preventive

ASSERTION AND REASON

48. **Assertion :** The new economic policy, announced in 1991, consisted of a wide range of economic reforms.

Reason : The private sector performed poorly during the period 1950-1990.

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
(b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
(c) Assertion is true but Reason is false.
(d) Assertion is false but Reason is true.

Ans :

FOREIGN 2006

(b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.

49. **Assertion :** Liberalization involves deregulation and reduction of government controls.

Reason : Liberalization aimed at encouraging the private sector and multinational corporations to invest and expand.

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
(b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
(c) Assertion is true but Reason is false.
(d) Assertion is false but Reason is true.

Ans :

SQP 2013

(a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.

- 102.** “In the post-reform period the government of India decided to privatize profit making Public Sector Undertakings (PSU).”

Do you agree with the given statement? Give valid arguments in support of your answer.

Ans :

OD 2024

I disagree with the statement. Instead, the Government of India decided to retain profit-making PSU to ensure their sustained profitability and significant contribution to the economy. These PSU serve as crucial sources of revenue through dividends, taxes and other channels, which are vital for financing economic development, infrastructure expansion and social welfare initiatives.

Moreover, the government granted special status to select PSU, enabling them to compete effectively in the global market. This special status included access to financial assistance, advanced technology, favorable trade policies and diplomatic support. These measures have empowered PSU to expand internationally, explore new markets and strengthen the Indian economy by earning foreign exchange, creating employment opportunities and promoting overall economic development.

- 103.** How does privatization lead to improvement in the fiscal health of a country?

Ans :

SQP 2005

- (i) Privatize Loss-Making Enterprises : Loss-making public sector undertakings (PSU) burden fiscal resources. Privatization can enhance managerial efficiency by reducing political interference and increasing investment and employment.
- (ii) Retain Welfare-Oriented PSU : PSU established for critical infrastructure or public welfare should not be privatized, even if incurring losses, as privatization may compromise accessibility and social benefits.
- (iii) Preserve Profit-Making PSU : Profitable PSU provide essential government revenue for investments and expenditures, making their retention critical for economic stability.

Thus, privatization should focus on non-core, under performing PSU while preserving essential and profitable ones.

- 104.** Strategic sale of a public sector undertaking and minority sale of their shares are methods of disinvestment. Explain.

Ans :

COMP 2011

The government uses two main methods for disinvestment of public sector undertakings (PSU) :

- (i) Sale of Minority Shares : The government sells a portion of its equity (less than 50%) in small lots to the public, financial institutions, or other investors. Ownership remains with the government.
- (ii) Strategic Sale : A significant part of the government's stake (51% or more) is sold to a private company, transferring ownership.

Examples include Modern Foods India, Videsh Sanchar Nigam Limited (VSNL) and Maruti Udyog Limited.

- 105.** “Navratna Policy of the government has helped in improving the performance of Public Sector Undertakings in India.” Do you agree with the given statement? Justify your answer with valid arguments.

Ans :

OD 2024

Yes, I agree with the statement. To enhance efficiency, infuse professionalism and enable Public Sector Undertakings (PSU) to compete effectively in the liberalized global environment, the government identified profit-making PSU and granted them special status by classifying them as Maharatnas, Navratnas and Miniratnas.

This classification provided these PSU with greater managerial and operational autonomy, allowing them to make key decisions independently. Over the years, these Maharatnas, Navratnas and Miniratnas have demonstrated remarkable performance and have established themselves as market leaders in their respective sectors.

- 106.** “India is often called as ‘Outsourcing Destination’ of the world. Discuss the prime reasons for this name given to India.

Ans :

SQP 2020

Outsourcing, a growing business practice, is a significant outcome of the globalization process. It involves companies hiring regular services from external sources, often from other countries, for tasks that were previously performed internally, such as legal advice, computer services, advertising and more. Many multinational corporations, as well as smaller companies, outsource their services to India due to the availability of skilled manpower at lower costs, offering a balance of afford-ability, skill and accuracy.

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56. Assertion : Performance of PSU improved with the infusion of private capital and managerial capabilities.

Reason : Privatization improved financial discipline and facilitated modernization.

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
- (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

DELHI 2018

(a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.

57. Assertion : WTO was set up to facilitate international trade by removing tariff as well as non-tariff barriers.

Reason : Major volume of international trade occurs among the developed nations.

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
- (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

OD 2010

(b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.

58. Assertion : Under the policy of privatization, many goods earlier produced by small scale industries were de-reserved.

Reason : The government sought to make the economy more competitive and improve efficiency of operations.

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
- (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

FOREIGN 2008

(d) Assertion is false but Reason is true.

59. Assertion : Under the foreign exchange reforms, the rupee was devalued against foreign currencies.

Reason : In 1991, foreign exchange reserves were at the lowest level.

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
- (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

SQP 2004

(a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.

60. Assertion : Industrial sector reforms substantially reduced the role of the public sector.

Reason : The new policy abolished industrial licensing for all except 18 industries which has been further reduced to 5.

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
- (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

COMP 2004

(b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.

61. Assertion : Removal of export duties was a structural reform measure adopted by the government.

Reason : Structural reform measures were meant to correct the weakness in the BOP situation.

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
- (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

DELHI 2001

(c) Assertion is true but Reason is false.

- 50. Assertion :** Under the New Economic Policy, quantitative restrictions on imports and exports were greatly reduced.

Reason : The inward looking trade strategy, followed before 1991, increased the efficiency and competitiveness of domestic industries.

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
- (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

COMP 2020

- (c) Assertion is true but Reason is false.

- 51. Assertion :** There has been a continuous reduction in income and corporate tax rates.

Reason : Tax procedures have been simplified to encourage better tax compliance by tax-payers.

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
- (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

DELHI 2011

- (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.

- 52. Assertion :** Reforms in the trade and investment policy helped increase the international competitiveness of Industrial production.

Reason : Reduction in import duties helped the domestic Industries to import raw materials at better prices.

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
- (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

OD 2012

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion

- 53. Assertion :** The financial sector reforms reduced the role of RBI from a facilitator to regulator of the financial sector.

Reason : Greater autonomy was ensured to the financial institutions for their functioning.

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
- (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

FOREIGN 2016

- (d) Assertion is false but Reason is true.

- 54. Assertion :** India has become a favorable destination of outsourcing for most MNC.

Reason : The government has introduced favorable policy changes towards MNC in its economic reforms.

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
- (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

SQP 2023

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.

- 55. Assertion :** The reform policies led to an increase in the limit of foreign investment in banks.

Reason : The devaluation of the rupee against foreign currencies increased the inflow of foreign exchange.

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
- (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

COMP 2021

- (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.

71. What do you mean by demonetization?

Ans : COMP 2017

It refers to the process of removing a currency unit's status as an official legal tender, carried out by the Reserve Bank of India.

72. Define disinvestment.

Ans : COMP 2019

Disinvestment refers to the privatization of public sector enterprises by selling a portion of their equity to the public.

73. What is the objective of World Trade Organization?

Ans : FOREIGN 2014

The aim of the WTO is to create a rule-based trading system to promote the optimal utilization of global resources.

74. World Trade Organization (WTO) was established in 1995, as a successor organization to _____. (Fill up the blank with correct answer)

Ans : DELHI 2020

GATT (General Agreement on Tariffs and Trade).

75. State whether the following statement is true or false :
'World Bank is also known as International Bank for Registration and Delimitation (IBRD).'

Ans : SQP 2020

True. The World Bank is also known as the International Bank for Reconstruction and Development (IBRD).

76. State, whether the following statement is true or false :
"GATT was established in 1923 with 48 member countries."

Ans : COMP 2020

True; GATT was established in 1948 with 23 countries.

77. What is meant by economic reforms?

Ans : FOREIGN 2007

Economic reforms refer to policies aimed at enhancing economic efficiency.

78. What is the full form of BHIM?

Ans : FOREIGN 2013

Bharat Interface for Money (BHIM).

79. Name any two Navratna companies.

Ans : OD 2011

Bharat Petroleum Corporation Limited (BPCL) and Oil and Natural Gas Corporation Limited (ONGC).

80. What is the purpose of imposing tariffs?

Ans : DELHI 2005

Tariffs are levied to increase the cost of imported goods.

81. What is GST?

Ans : SQP 2019

Goods and Services Tax (GST) is a comprehensive indirect tax implemented across India, replacing multiple cascading taxes previously imposed by central and state governments.

82. How will GST benefit the consumers?

Ans : DELHI 2015

Goods and Services Tax (GST) subsumes several major central and state taxes, leading to reduced prices and uniformity in the cost of goods and services across the country.

83. When did the ₹500 and ₹1000 rupee notes stop being legal tender money?

Ans : OD 2006

On November 8, 2016, the government demonetized the two highest denomination notes, ₹500 and ₹1000, rendering them invalid as legal tender except for specific purposes.

84. What is meant by economic reforms?

Ans : FOREIGN 2007

Economic reforms refer to policies aimed at enhancing economic efficiency.

TWO MARK QUESTIONS

85. State any two objectives of trade reforms.

Ans : COMP 2019

- (i) To eliminate quantitative restrictions on imports and exports.
- (ii) To abolish import licensing procedures, except for hazardous and environmentally sensitive industries.

86. Name any two industries which are exclusively reserved for the public sector.

Ans :

DELHI 2019, 2018

- (i) Atomic energy production
- (ii) Defence equipment manufacturing
- (iii) Railway operations

87. In which type of tax does the liability to pay the tax and the burden of the tax fall on the same person?

Ans :

COMP 2011

Direct taxes impose both the liability to pay and the burden on the same individual, as they cannot be transferred to others. Examples include income tax and corporate tax.

88. Name the economic reforms which were introduced by the government under the policy of liberalization.

Ans :

DELHI 2012

Economic reforms under liberalization include :

- (i) Industrial sector reforms
- (ii) Financial sector reforms
- (iii) Tax or fiscal reforms
- (iv) Foreign exchange reforms
- (v) Trade and investment policy reforms.

89. What do you mean by devaluation of rupee? What effect does it have on exports and imports?

Ans :

OD 2016

Devaluation occurs when the government officially lowers the currency's value relative to foreign currencies. This makes exports cheaper for foreign buyers, boosting exports and imports more expensive, discouraging foreign purchases.

90. How can Government companies be converted into private companies?

Ans :

FOREIGN 2023

Government companies can be privatized in two ways :

- (i) By the government withdrawing ownership and management from public sector companies.
- (ii) By the outright sale of public sector companies.

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THREE MARK QUESTIONS

91. Why are fiscal deficits considered inflationary in nature?

Ans :

SQP 2021

The government finances its fiscal deficit by borrowing from various sources, primarily the central bank, which issues new currency. This money funds government spending and eventually reaches the public, increasing the money supply and aggregate demand. If aggregate demand surpasses available output, it leads to inflation, or a rise in the general price level. Hence, fiscal deficits can create inflationary pressures in the economy.

92. "In a nation like India, self employment provides an important avenue for employment generation." Defend or refute the given statement with valid arguments.

Ans :

OD 2000

Self-employment involves working independently rather than for an employer. It plays a crucial role in India's employment generation, particularly in the informal sector. Self-employment offers independence, potential for higher earnings and creative freedom. Additionally, self-employed individuals not only secure livelihoods for themselves but also create job opportunities for others by running enterprises.

93. Why did India have to agree to the terms of World Bank and IMF and introduced the new economic policy?

Ans :

COMP 2018

India agreed to the constitutionalities of World Bank and IMF and announced the New Economic Policy (NEP). The NEP consisted of a wide range of economic reforms. The thrust of these policies was towards creating a more competitive environment in the economy and removing the barriers to entry and growth of firms.

India sought assistance from the World Bank and IMF, securing a \$7 billion loan to address an economic crisis. These institutions demanded economic liberalization, reduced government intervention and removal of trade and private sector restrictions. Accepting these conditions, India introduced the New (NEP), encompassing extensive economic reforms. The NEP aimed to foster a competitive environment and eliminate barriers to the entry and expansion of businesses.

FOUR MARK QUESTIONS

- 94.** What constitutes the financial sector? Briefly explain the financial reforms introduced under the policy of liberalization.

Ans :

OD 2024

The financial sector encompasses institutions like commercial banks, investment banks, stock exchanges and the foreign exchange market, all of which are overseen by the Reserve Bank of India (RBI). Under the policy of liberalization, several financial sector reforms were introduced :

- (i) **Change in the Role of RBI :** The RBI transitioned from a regulator to a facilitator of the financial sector. Before 1991, the RBI determined interest rates on loans and deposits. Post-liberalization, banks gained the autonomy to set their own interest rates, fostering competition in the banking sector.
- (ii) **Establishment of Private Sector Banks :** Reforms enabled the establishment of Indian and foreign private sector banks. Notable examples include Indian banks like ICICI and HDFC and foreign banks like HSBC, which increased competition and offered consumers better services and lower interest rates.
- (iii) **Increase Foreign Investment Limits :** The foreign investment limit in banks was raised to 50% and foreign institutional investors, such as merchant bankers, mutual funds and pension funds, were allowed to invest in Indian financial markets, further boosting the sector's growth.

- 95.** Write a note on New Economic Policy. What were its main objectives?

Ans :

DELHI 2010

The New Economic Policy (NEP) of 1991 was introduced to address the economic crisis of the early 1990s. It consisted of two types of measures :

- (i) **Stabilization Measures(Short-term) :** Aimed at correcting balance of payments weaknesses by ensuring adequate foreign exchange reserves. Focused on controlling inflation by managing rising prices effectively.
- (ii) **Structural Reform Measures (Long-term) :** Designed to enhance the efficiency of the economy. Targeted at increasing international competitiveness by removing rigidities in various sectors of the Indian economy.

Components of NEP :

- (i) **Liberalization :** Replaced licensing with deregulation in industries and trade.
- (ii) **Privatization :** Phased out quotas and encouraged private sector participation.
- (iii) **Globalization :** Replaced restrictive permits with policies to integrate India with the global market.

Objectives of Economic Reforms :

- (i) To make the economy competitive.
- (ii) To accelerate growth.
- (iii) To enhance the efficiency and productivity of production units.
- (iv) To leverage global resources for domestic development.
- (v) To consolidate past gains.
- (vi) To improve fiscal discipline by reducing the fiscal deficit.

These reforms transformed India's economic framework and laid the foundation for sustained growth and globalization.

- 96.** State three reasons for the implementation of NEP.

or

State and explain the conditions of the Indian economy that necessitated the introduction of economic reforms in the year 1991.

or

Indian economy was on the brink of collapse in the year 1991. Do you agree? Give reasons in support of your answer.

Ans :

OD 2008

In 1991, India's economic condition was extremely dire due to several interlinked factors, prompting the need for economic reforms. The key reasons were :

1. **Fall in Foreign Exchange Reserves :** Foreign exchange reserves were heavily utilized for consumption and development projects. By 1991, reserves had fallen to a level insufficient to finance more than two weeks of imports or pay interest on international borrowings. Reserves dwindled from ₹80-100 cores in the 1980s to nearly ₹6,000 cores by the 1990s.
2. **Rising Prices/Inflation :** Inflation surged to an all-time high of 17% due to aggregate supply shortages and deficit financing, where the government borrowed from the RBI to cover fiscal deficits.

62. Assertion : Post 1991, India has become the favored outsourcing destination in the world.

Reason : Indian labour has skilled labour force.

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
- (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

OD 2021

(b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.

63. Assertion : The purpose of license policy was to promote regional equalities.

Reason : The motive of licensing system was to monitor and control the industrial production.

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
- (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

OD 2021

(a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.

STATEMENT BASED QUESTIONS

64. Statement-1 : The demonetization of currency was undertaken by Indian Government on November 8, 2016.

Statement-2 : Demonetization has increased the popularity of e-wallets in India.

- (a) Statement 1 is true & Statement 2 is false.
- (b) Statement 1 is false & Statement 2 is true.
- (c) Both statements 1 & 2 are true.
- (d) Both statements 1 & 2 are false.

Ans :

DELHI 2021

(a) Statement 1 is true & Statement 2 is false.

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65. Statement 1 : Outsourcing is one of the important outcomes of globalization process.

Statement 2 : Owing to globalization, many Indian companies have expanded their operation abroad.

- (a) Statement 1 is true & Statement 2 is false.
- (b) Statement 1 is false & Statement 2 is true.
- (c) Both statements 1 & 2 are true.
- (d) Both statements 1 & 2 are false.

Ans :

OD 2024

(c) Both statements 1 & 2 are true.

ONE MARK QUESTIONS

66. State the meaning of 'Privatization'.

Ans :

SQP 2023

Privatization is the process of transferring ownership and management of public sector companies from the government to private entities or individuals.

67. What is the main aim of transition towards a cashless economy ?

Ans :

SQP 2020

The main objective of promoting a cashless economy is to minimize corruption in the long term.

68. What is an Open Economy?

Ans :

OD 2003

An Open Economy is one where goods, services, capital and labor can flow freely without any restrictions.

69. What is meant by fiscal deficit?

Ans :

SQP 2009

Fiscal deficit is the gap between the government's total expenditure and its total receipts, excluding borrowings.

70. What do you mean by quantitative restrictions?

Ans :

COMP 2002

Quantitative restrictions are quotas that define the specific quantity of goods allowed to be imported.

These reforms integrated the Indian economy with the global market, boosting trade, investment and economic growth.

- 99.** Discuss the industrial sector reforms and the fiscal sector reforms introduced in the New Economic Policy.

Ans :

DELHI 2007

Industrial Sector Reforms (1991) :

- (i) Abolition of Industrial Licensing : Licensing was abolished for most industries, except five (liquor, cigarettes, defense equipment, industrial explosives and hazardous chemicals).
- (ii) Contraction of Public Sector : The number of industries reserved for the public sector reduced from 17 to 8 and later to just 2 (Atomic Energy and Railways).
- (iii) De reservation of Small-Scale Industries : Market forces were prioritized for resource allocation over government directives.
- (iv) Freedom to Import Capital Goods : Industrialists could import capital goods and raw materials freely; high-priority industries received automatic approval for foreign technology agreements.
- (v) MRTP Act Relaxation : Large companies were allowed to expand without prior government approval.

Fiscal Sector Reforms :

- (i) Reduction in Taxes : Lowered income and corporate tax rates to curb tax evasion.
- (ii) Reforms in Indirect Taxes : Simplified tax structure; introduced GST to establish a unified national market.
- (iii) Simplification of Procedures : Made taxation processes more user-friendly to ensure better compliance.

- 100.** Why is fiscal deficit not considered good for the health of an economy?

Ans :

OD 2009

Implications of High Fiscal Deficit :

- (i) Vicious Circle of Borrowings : High fiscal deficit leads to increased borrowing, resulting in higher interest payments, which further raises the deficit and necessitates more borrowing.
- (ii) Inflationary Pressure : Borrowing from the RBI often involves printing more currency (deficit financing), which increases money supply, leading to inflation.

- (iii) Increased Foreign Dependence : Borrowing from foreign countries raises external debt and may lead to economic and political interference by lender nations.
- (iv) Economic Burden on Future Generations : Future generations inherit the responsibility to repay accumulated debts along with interest, impacting long-term economic stability.

- 101.** Should the government privatize all public sector undertakings irrespective of whether they are earning profits or incurring losses?

Ans :

FOREIGN 2002

Yes, the need for privatization was felt mainly because of the poor performance of the PSU. The following observations justify this statement :

- (i) The industrial policy resolution 1956 clearly and categorically stated the significance of PSU in the process of growth and development. The spread of PSU made it possible for India to diversify its industrial base between the period 1951-1999 (i) It was due to this that the Indian economy underwent a structural transformation wherein people started shifting from agriculture to industry as a source of livelihood.
- (ii) However, gradually most public sector enterprises turned into a social dead weight due to mounting losses which after a point became unsustainable. Leakage, pilferage, inefficiency and corruption had become so rampant in PSU's that their privatization was considered as the only remedy.

The need for privatization arose primarily due to the poor performance of public sector undertakings (PSU). Key observations include :

- (i) Initial Importance of PSU : The 1956 Industrial Policy recognized PSU as critical for India's industrial diversification and structural transformation, facilitating a shift from agriculture to industry from 1951-1999(i)
- (ii) Deteriorating Performance : Over time, many PSU incurred unsustainable losses, becoming economic burdens. Issues like inefficiency, corruption, leakage and pilferage weakened their productivity and financial health.

Privatization was seen as a remedy to enhance efficiency, reduce fiscal burdens and ensure better management of resources.

3. **Deficit in Balance of Payments (BOP) :** A growing BOP deficit occurred as foreign payments for imports exceeded foreign receipts from exports. Despite imposing high tariffs and quotas, imports rose sharply while exports stagnated due to low quality and high prices of Indian goods in international markets.
4. **Inefficient Management :** During the 1980, inefficient economic management worsened the crisis. Government expenditure consistently exceeded revenue and internal revenue generation from taxation and public sector profits was inadequate. Foreign borrowings were often spent on consumption rather than productive needs, deepening the crisis.
5. **Poor Performance of Public Sector Undertakings (PSU) :** Despite diversification across sectors, the overall performance of PSU was disappointing. Inefficiency, corruption and poor functioning made PSU an economic burden, necessitating a shift in government policy from public sector reliance to private sector engagement.
6. **Fiscal Deficit :** Fiscal deficit increased from 4% of GDP in 1981-82 to 8.4% of GDP in 199(i) To bridge this gap, heavy borrowings were undertaken, pushing the economy into a debt trap.

These factors collectively underscored the urgent need for structural reforms to stabilize and revitalize the economy.

97. How is RBI controlling the commercial banks?

or

“Though banks have been given permission to generate resources from India and abroad, certain managerial aspects have been retained with the RBI to safeguard the interest of the account holders and the nation”. Elaborate. (HOTS)

Ans :

SQP 2001

The financial sector, including commercial banks, operates under the regulations and norms set by the Reserve Bank of India (RBI). Key control mechanisms include :

- (i) **Reserve Requirements :** The RBI mandates commercial banks to maintain a fraction of their net total demand and time deposits as : Cash Reserve Ratio (CRR) : Cash reserves with the RBI. Statutory Liquidity Ratio (SLR) : Reserves in liquid assets with the banks themselves.

- (ii) **Bank Rate :** RBI sets the bank rate, which is the interest rate at which commercial banks borrow funds from the RBI.
- (iii) **Open Market Operations (OMO) :** RBI regulates liquidity in the economy by buying and selling government securities to or from commercial banks.
- (iv) **Supervision and Regulation :** RBI oversees and ensures that commercial banks comply with financial norms, maintain sound practices and safeguard depositor interests.

These measures ensure the stability and efficiency of the financial sector.

98. Explain the external sector reforms introduced under the policy of liberalization.

Ans :

COMP 2003

External Sector Reforms :

- (i) **Foreign Trade Policy Reforms :** These reforms aimed to Increase international competitiveness. Promote foreign investments and technology in India. Enhance efficiency of local industries and facilitate adoption of modern technology.
- (ii) **Key measures undertaken :** Abolition of Quantitative Restrictions : All restrictions on imports and exports were removed.
- (iii) **Reduction of Tariff Barriers :** Import duties were significantly reduced to stimulate domestic trade and economic growth.
Shift to Export Promotion : The earlier focus on import substitution was replaced by export promotion.
- (iv) **Abolition of Licensing :** Licensing requirements were eliminated, except for hazardous and environment-sensitive industries.
Removal of Export Duties : Export duties were abolished to enhance the competitiveness of Indian goods in global markets.

Foreign Exchange Reforms :

- (i) **Devaluation of Rupee :** The government reduced the rupee's value against foreign currencies to address the balance of payments crisis, encouraging an inflow of foreign exchange.
- (ii) **Market-Determined Exchange Rate :** Exchange rates were determined by market forces of demand and supply, promoting efficiency in foreign exchange markets.
- (iii) **Liberalization of Foreign Investment :** The number of products open to foreign investment was increased, attracting more global capital to India.

Key services outsourced to India include voice-based business processes (BPO), record-keeping, accountancy, banking services, film editing and even teaching. In the post-reform period, India has emerged as a global outsourcing hub, driven by its competitive wage structure and pool of skilled professionals.

- 107.** Critically evaluate the policy of privatization as part of the New Economic Policy.

Ans :

DELHI 2014

The purpose of privatization is to enhance financial discipline and promote modernization by encouraging private sector participation in economic development through their administrative efficiency.

Privatization has benefited the economy in several ways :

- (i) Improved Management Efficiency : Entrepreneurs were empowered to make quick decisions without government interference or unnecessary formalities.
- (ii) Financial Discipline : Privatization ensured a steady supply of funds, overcoming the delays that characterized the pre-1991 administrative setup.
- (iii) Reduction in Fiscal Deficit : It reduced the government's financial burden by cutting non-development expenditures and supported revenue generation through profits and taxes.
- (iv) Increased Competitiveness : It fostered competition in both domestic and international markets, improving overall economic performance.
- (v) Rise in Foreign Direct Investment (FDI) : By improving financial discipline, privatization encouraged greater inflow of FDI, supported by private sector investments.
- (vi) Production Diversification : The private sector efficiently responded to consumer demands, diversifying and expanding production while promoting consumer sovereignty.

However, privatization also brought certain drawbacks :

- (i) Neglect of Social Welfare : Private entities focus on profit maximization, often at the cost of social interests.
- (ii) Monopolistic Tendencies : It risks creating private monopolies, leading to concentration of power in a few hands.
- (iii) Unemployment Concerns : To cut costs, the private sector may resort to retrenchment, hindering the goal of full employment.

- (iv) Limited Infrastructure Development : The private sector often avoids investing in economic and social infrastructure due to low returns, impacting long-term growth.

- 108.** 'It is the process of hiring regular service from external sources, mostly from other countries, which was previously provided internally or from within the country.'

Identify the concept discussed in the given para. State three advantages of the concept so identified.

Ans :

COMP 2019

The concept highlighted in the paragraph is 'Outsourcing.' Outsourcing refers to the business practice of contracting external parties to perform services or produce goods that were traditionally handled in-house by a company's own employees. In the context of globalization, outsourcing often involves hiring services from external sources, frequently from other countries, for tasks that were previously managed internally.

Key advantages of outsourcing include :

- (i) Focus on Core Functions : By outsourcing non-core activities such as administrative and back-office operations, organizations can concentrate on their primary functions and strategic goals.
- (ii) Cost Savings : One of the most significant benefits of outsourcing is cost reduction. Lower operational and labor costs, along with reduced overhead expenses, make outsourcing an appealing option.
- (iii) Operational Efficiency : When certain functions become difficult to manage internally, outsourcing provides an effective solution, ensuring smoother operations and better control.

- 109.** What advantages does India enjoy which makes it a favourite outsourcing destination?

Ans :

DELHI 2017

India has emerged as a preferred outsourcing destination for most multinational corporations (MNC) due to several factors :

- (i) Availability of Affordable Labor : Wage rates in India are significantly lower compared to developed countries, making it an attractive option for cost-effective labor.
- (ii) Vast Skilled Workforce : India boasts a large pool of skilled manpower that is readily available, providing high-quality services across various sectors.

prices, encouraging consumption. Higher consumption stimulates production, supporting industrial growth. These benefits highlight GST's role in streamlining taxation and fostering economic development

CASE BASED QUESTION

- 137.** Read the para given below and answer the questions that follow :

Disinvestment means sale or liquidation of assets by the Government, usually Central and State public sector enterprises, projects, or other fixed assets. The Government undertakes disinvestment to reduce the fiscal burden on the exchequer, or to raise money for meeting specific needs, such as to bridge the revenue shortfall from other regular sources. In some cases, disinvestment may be done to privatize assets. However, not all disinvestment is privatization.

Some of the benefits of disinvestment are that it can be helpful in the long-term growth of the country; it allows the government and even the company to reduce debt. Disinvestment allows a larger share of PSU ownership in the open market, which in turn allows for the development of a strong capital market in India. The Government, whenever it so desires, may sell a whole enterprise, or a majority stake in it, to private investors. In such cases, it is known as privatization, in which the resulting ownership and control of the organization does not rest with the government. The Government usually avoids doing this. The Government mostly retains more than half of the stake in the public sector enterprise so that the control remains in its hands. But when it does not, then the ownership is transferred to the private sector, which results in privatization. It is also known as majority disinvestment or complete privatization wherein 100 per cent control goes to the private sector.

- (i) Following is not an objective of disinvestment:
- Discouraging private ownership.
 - Maintaining and promoting competition in the market.
 - Improving public finances.
 - Funding growth and development programs.

- (ii) Which of the following is not referred to as privatization?
- Transferring of ownership of public sector enterprises to private sector.
 - Disinvestment in public sector enterprises.
 - Expansion of public sector.
 - Strategic sale of public sector enterprises to the private sector .

- (iii) The financial sector in India is regulated by the World Bank. (True/False)

- (iv) Identify and match the public sector undertakings in Column I with the special status granted to them by the government shown in Column II.

	Column I		Column II
1.	Steel Authority of India	A.	Navratnas
2.	MTNL	B.	Miniratnas
3.	Airport Authority of India	C.	Maharatnas

- 1-B, 2-A, 3-C
- 1-A, 2-B, 3-C
- 1-C, 2-A, 3-B
- 1-C, 2-B, 3-A

Ans :

DELHI 2017

- (a) Discouraging private ownership.
- (c) Expansion of public sector.
- False
- (c) 1-C, 2-A, 3-B

- 138.** Read the para given below and answer the questions that follow :

Liberalization has tremendously expanded the scope of the private industry in India. Prior to liberalization, 17 of the most important industries were exclusively reserved for the public sector. Later many of the industries were liberalized. Industries in the private sector faced several regulations like Industrial Licensing, clearance from MRTP Act and Foreign Exchange restrictions etc. which would hinder private investments.

With the liberalization policy, these restrictions were removed, offering large scope for the expansion of the private sector. The liberalization policy of the Government has strengthened the performance of Indian industries by becoming more competitive. Contrary to the fear expressed by several people that liberalization would result in foreign competition and strangling down of

Yes, outsourcing is beneficial for India. Many foreign companies outsource their services to Indian firms due to the availability of affordable labor. India, with its vast pool of IT professionals, has effectively capitalized on this opportunity. Outsourcing has contributed to India's economy in the following ways :

- (i) **Employment Generation** : It has created numerous job opportunities for the workforce.
- (ii) **GDP Contribution** : Outsourcing has significantly added to the country's GDP.
- (iii) **Inflow of Foreign Exchange** : The inflow of funds from foreign companies has boosted India's foreign reserves.
- (iv) **Technical Know-How** : It has facilitated the exchange and adoption of advanced technical expertise.
- (v) **Improved Standard of Living** : Higher-paying jobs created through outsourcing have enhanced the quality of life.

However, developed countries view outsourcing to India as a threat. It has caused unemployment in their nations and redirected funds, narrowing income disparities between countries.

115. Briefly explain the factors responsible for the high growth of service sector.

Ans :

FOREIGN 2023

- (i) **Economic Reforms** : The liberalization and economic reforms introduced under the New Economic Policy of 1991 reduced restrictions on the movement of international finance and technology. This facilitated the inflow of foreign capital and technology, fostering the growth of the service sector.
- (ii) **Availability of Cheap and Skilled Labour** : India's abundant supply of skilled and cost-effective manpower made it a profitable destination for developed countries to outsource their services, boosting the service sector.
- (iii) **Growth of the IT Sector** : Advancements and innovations in information technology enabled Internet usage, improved communication and facilitated electronic transactions across borders, further driving the expansion of India's service sector.

116. What is Globalization? What steps have been taken by the Indian government for its implementation?

Ans :

COMP 2020

Globalization refers to the process of integrating an economy with the global economy, involving the free movement of capital, goods and workforce across borders. It promotes foreign trade and facilitates the movement of labor and capital among nations. Several policy measures have been implemented to globalize the Indian economy :

- (i) **Increase in Foreign Investment Equity Limit** : The equity limit for foreign investment was raised from 40% to 51%. Additionally, in 47 high-priority industries, foreign direct investment (FDI) up to 100% has been permitted.
- (ii) **Removal of Quantitative Restrictions** : From 2001, all quantitative restrictions on imports were withdrawn, aligning with India's WTO commitments.
- (iii) **Reduction in Tariffs** : Customs duties and tariffs on imports and exports were reduced and modified to enhance competitiveness and promote international trade.
- (iv) **Simplified Technology Agreements** : The government eased foreign collaborations, especially those involving advanced technologies, to encourage technological exchange.
- (v) **Rupee Convertibility** : The rupee was made convertible for trade and subsequently for current account transactions, allowing the free exchange of foreign currencies and integrating India further into the global economy.

117. Although, globalization generally means integration of the economy of the country with the world economy, it is a complex phenomenon. Elucidate.

Ans :

DELHI 2011

Globalization is a direct outcome of the policies of liberalization and privatization, aimed at transforming the world into a unified whole by fostering a border-less world. It promotes free interaction among nations in various domains such as trade, technology, loans, investments and outsourcing.

Key aspects of globalization include :

- (i) **Increasing Interaction and Integration** : Globalization is a system characterized by heightened interaction, growing economic interdependence and expanding economic integration across nations.
- (ii) **Economic Integration** : It facilitates the integration of a country's economy with the global economy, enhancing interconnectedness.

3. Ineffective Fiscal Policies :
 Unrealized Revenue Growth : Tax reductions failed to generate higher revenue due to limited compliance.
 Restricted Public Expenditure : Social sector spending was constrained by economic reforms.
 Tax Incentives for Foreign Investors : These reduced potential tax revenue.
 Lower Tariff Revenues : Reductions in tariffs and customs duties limited government income.
4. Unbalanced Growth : Growth was concentrated in select service sectors like IT, telecommunications and finance, neglecting agriculture and industry, which support the livelihoods of millions.
5. Dominance by MNC : Multinational corporations dominate the Indian market, exploiting it for profits while marginalizing local businesses.
6. Jobless Growth : Despite higher GDP growth rates, employment generation has been inadequate, leading to “jobless growth”, failing to alleviate poverty effectively.
7. Disinvestment Issues : PSU assets were undervalued and sold, resulting in losses for the government. Proceeds were used to address fiscal deficits rather than developing PSU or social infrastructure.
8. Increased Inequalities : Globalization benefited high-income groups, widening disparities in income and consumption while leaving marginalized populations behind.
9. Spread of Consumerism : The presence of MNC and global brands promoted consumerism, encouraging people to spend beyond their means, leading to financial vulnerabilities.

These limitations highlight the uneven impact of economic reforms, underscoring the need for balanced growth strategies that address the needs of all sectors and populations.

- 124.** “Owing to LPG policies, the Indian economy is on the path of a growth momentum.” Explain.

or

How have economic reforms benefited the Indian economy?

Ans :

OD 2008

Achievements of the LPG Policies :

1. Outsourcing : Organizations began contracting out certain activities to third parties.

India became a global outsourcing hub due to its low wage rates and skilled manpower.

2. Growth of Service Sector : The share of services in India’s GDP grew significantly during the reform period.
 Liberalization opened banking, insurance, communication and transport to private participation, driving sectoral growth.
3. Consumer Sovereignty : Indian consumers now enjoy a wider variety of goods and services from MNC, increasing their welfare and choice.
4. Check on Inflation : Inflation declined from 17% in 1990-91 to 2.9% in 2017-18, indicating price stability.
5. Increase in Foreign Direct Investment (FDI) and Foreign Exchange Reserves :
 FDI inflows and foreign exchange reserves grew due to :
 Devaluation of Rupee : A deliberate reduction in rupee value to boost exports.
 Increase in Foreign Investment : Attracted by liberal policies.
 Full Convertibility of Rupee : Enabled free exchange of rupees for trade purposes.
6. Competitive Environment : The entry of MNC created competition in the domestic market, offering better quality and variety in products like refrigerators, cars and ACs at competitive prices.
7. Recognition as an Emerging Economic Power : India is now globally acknowledged as a rising economic power, boosting investor confidence and international economic ranking.
8. Promotion of Exports : Economic reforms led to a surplus in production, allowing India to meet domestic needs and export goods like auto parts, engineering goods, IT software and textiles.
9. Economic Growth : GDP growth improved from 5.6% (1980-91) to 8.2% (2007-12), reflecting enhanced economic performance.

These achievements demonstrate the transformative impact of LPG policies on India’s economy.

- 125.** What was the purpose of launching the Bhim app by the Government of India ?

Ans :

SQP 2001

BHIM (Bharat Interface for Money) is a mobile payment application developed by the National Payment Corporation of India (NPCI) based

Impact of Economic Reforms on Agriculture :

- (i) Improved Market Access : Reforms created more efficient and transparent markets, enabling farmers to secure better prices and ensuring agribusinesses had reliable raw material supplies.
- (ii) Inflationary Pressures : A shift toward cash crops and subsidy removal led to increased food grain prices, raising production costs and negatively impacting the agricultural sector.
- (iii) Liberalized Imports : Reduced import duties under WTO commitments forced small farmers to compete with foreign producers. Traditional farming methods struggled against international competition, adversely affecting marginal farmers.

Impact of Economic Reforms on Industry :

- (i) Slowdown in Growth : Industrial growth slowed due to factors like declining demand, cheaper imports and inadequate infrastructure investment.
 - (ii) Increased Competition : Globalization brought greater inflows of goods and capital from developed countries, compelling domestic industries to improve quality and competitiveness.
 - (iii) Export Restrictions : Quota restrictions on Indian textile exports were removed domestically, but some developed countries, like the USA, retained restrictions on Indian textile imports.
- Despite these challenges, the reforms stimulated overall production, meeting domestic demand and creating a marketable surplus. India emerged as a successful exporter of auto parts, engineering goods, IT software and textiles.

- 122.** Explain how the LPG policies have eroded our culture and spread consumerism in our economy and society.

Ans :

COMP 2018

The spread of MNC in India, as a result of the LPG policies, has significantly contributed to the rise of consumerism. The availability of global brands has encouraged extravagant spending, often beyond individual financial means. Adopting the Western culture of spending through borrowing, Indian society is witnessing an expansion in market size for traders and manufacturers. However, this trend has increased the financial vulnerability of households as consumers.

Additionally, globalization has led to cultural erosion in Indian society. Economic prosperity has overshadowed other life values, with a growing emphasis on independence and material wealth, often at the expense of familial and social responsibilities. Traditional virtues like loyalty to family and society, once central to Indian culture, are being discarded in favor of materialistic pursuits, signaling a shift away from the country's cultural roots.

- 123.** Explain any three criticisms of NEP.

or

“All that glitters is not gold”. There is a negative side to the story of NEP as well. Justify the statement by giving arguments in support of your answer.

or

“Industrial sector performed poorly in the economic reform period.”
Elucidate the given statement.

Ans :

OD 2024

The economic reforms introduced in India since 1991 have been criticized for their inability to address key issues effectively. The major limitations of these reforms are as follows :

1. Reforms in Agriculture :
 Limited GDP Contribution : Growth in GDP has largely been driven by the secondary and tertiary sectors, with agriculture lagging.
 Reduced Public Investment : Declining investment and increased input costs made Indian farmers uncompetitive globally.
 Impact of WTO Policies : Policies such as reduced import duties, removal of minimum support prices and lifting of quantitative restrictions increased international competition, adversely affecting farmers.
 Shift to Cash Crops : Export-oriented strategies caused a shift from food grains to cash crops, leading to higher food grain prices.
2. Low Industrial Growth :
 Cheaper Imports : Globalization led to an influx of cheaper imports, reducing demand for domestic goods and increasing competition.
 Inadequate Infrastructure : Poor infrastructure, including unreliable power supply, hindered industrial growth.
 Non-Tariff Barriers : Developed countries, like the USA, retained import quotas on Indian textiles, limiting exports.

GST is consumption-based, meaning taxes are allocated to the state where goods or services are consumed, not the state where they are produced. This approach ensures fairness in tax distribution and simplifies the tax structure.

130. Discuss the short-term impact of demonetization.

Ans :

OD 2002

The notable short-term impacts of demonetization are as follows :

1. **Slowdown in Growth :** Reduced liquidity led to a decline in both demand and supply, slowing economic growth.
2. **Reduction in Black Money :** Many black money holders were brought into the tax net, leading to a visible decline in unaccounted wealth.
3. **Reduced Money Supply :** A temporary reduction in money supply occurred until new currency notes were fully circulated.
4. **Increase in Bank Deposits :** A sharp rise in bank deposits and savings strengthened the financial system.
5. **Higher Government Revenue :** Increased tax disclosures boosted government revenue, while demonetized notes were accepted for tax payments and arrears clearance.
6. **Decline in Indirect and Corporate Taxes :** Economic slowdown led to a reduction in these tax collections.
7. **Falling Price Levels :** Demand contraction caused a decline in the overall price level of goods.
8. **Negative Impact on GDP :** Reduced cash transactions negatively affected GDP formation.
9. **Increased Demand for Digital Payments :** Adoption of alternative payment modes, such as digital platforms, saw a significant rise.

131. How will GST promote foreign investment and enhance the ease of doing business?

Ans :

COMP 2003

The introduction of the Goods and Services Tax (GST) on July 1, 2017, is a landmark reform in India's tax system. GST aims to create a unified national market by replacing multiple indirect taxes with a single, streamlined tax structure. By removing tax barriers and eliminating the cascading effect of taxes, GST reduces the cost of production, encouraging increased industrial output. Lower production costs and simplified

taxation enhance the ease of doing business and attract foreign investment. Additionally, reduced transaction costs associated with the previous complex tax regime foster industrial growth and economic efficiency, positioning GST as a pivotal reform for economic progress.

132. What was the motive behind undertaking the extreme step of demonetization?

Ans :

DELHI2009

The recent demonetization initiative by the Government of India aimed to achieve the following objectives :

1. **Curbing Corruption :** Targeting illicit activities and penalizing wealth acquired through corruption.
2. **Promoting Digitalization :** Encouraging a shift from cash-based transactions to formal digital payment systems, fostering a cashless economy.
3. **Counterfeit Currency Control :** Reducing the circulation of fake currency and enhancing the integrity of the monetary system.
4. **Taxing Unaccounted Wealth :** Bringing unaccounted private wealth into the formal economy, ensuring greater transparency and curbing tax evasion through restricted cash transactions and increased digital payments.
5. **Channelizing Savings :** Encouraging informal savings to flow into the formal banking system. Deposited funds provide banks with resources to offer more loans at lower interest rates, stimulating economic activity.

133. Highlight some of the economic advantages of adopting the policy of demonetization.

Ans :

FOREIGN 2005

Demonetization is expected to yield several long-term economic benefits for the economy, including:

1. **Increase in GDP :** The widening of the tax net will enhance revenue collection, supporting higher economic growth.
2. **Control of Real Estate Sector :** By targeting cash-based and undocumented transactions, demonetization can help reduce property prices and bring transparency to the sector.
3. **Crackdown on Black Money :** Discouraging investments in physical assets like gold and real estate will sustain efforts to reduce black money circulation.
4. **Lower Interest Rates :** Banks, flush with surplus funds, can extend credit at lower

on the Unified Payments Interface (UPI). It was launched on 30th December 2016 as part of the government's initiative to promote digital payments and move towards a cashless economy, especially in the wake of the 2016 Indian banknote demonetization.

BHIM facilitates e-payments directly through banks, allowing users to transfer and receive money seamlessly using their mobile phones, enhancing convenience and promoting financial inclusion in the digital era.

- 126.** How has demonetization helped in bringing down the interest rates in the economy?

Ans :

FOREIGN 2004

The widening of the tax net following demonetization has led to increased tax collections, thereby enhancing the availability of funds in the banking system. With more funds at their disposal, banks can offer loans at reduced interest rates. This, in turn, stimulates economic activities by encouraging investments and consumption.

Additionally, demonetization has effectively brought a significant portion of unaccounted money into the formal financial system, channelizing savings through banks and other formal institutions. This integration strengthens the economy by increasing transparency, expanding the financial system and fostering sustainable economic growth.

- 127.** Discuss some of the benefits that will accrue to trade and industry due to implementation of GST.

Ans :

DELHI 2007

The Goods and Services Tax (GST) has streamlined the tax structure by subsuming major central and state taxes. The setting off of input purchases and the phasing out of Central Sales Tax have significantly reduced the cost of production. This reduction enhances the competitiveness of Indian goods and services in the international market, providing a boost to Indian exports.

Additionally, GST has introduced simplified and automated procedures for processes like registration, returns, refunds and tax payments. These improvements have brought greater transparency, efficiency and certainty to the taxation system, making compliance easier for businesses and fostering a more robust economic environment.

- 128.** 'In November 2016, the Indian government withdrew all ₹500 and ₹1000 banknotes of the Mahatma Gandhi series from circulation.'

Identify the concept discussed in the given statement. State its objectives.

Ans :

SQP 2019

The concept discussed is 'Demonetization', which refers to the act of withdrawing a currency unit's status as legal tender. It involves removing the current currency notes or coins from circulation and often replacing them with new ones.

Objectives of Demonetization :

- (i) **Curb Illegal Activities :** Aimed at tackling unethical business practices such as black marketing, food adulteration, the sale of counterfeit goods, human trafficking and the smuggling of gold and drugs.
- (ii) **Combat Fake Currency and Terror Funding :** Designed to eliminate fake currency and disrupt the flow of funds for terrorism, arms and ammunition.
- (iii) **Address Black Money and Corruption :** Large cash reserves of unaccounted black money lose their value, encouraging transparency and reducing corruption.

By targeting these issues, demonetization serves as a significant measure to fight black money, corruption and illegal activities, promoting a cleaner economy.

- 129.** 'From 1st July 2017, India adopted a dual GST (Goods and Service) tax model.'

In the light of the given statement discuss the dual GST model adopted by the country.

Ans :

COMP 2019

The Goods and Services Tax (GST) is a value-added tax imposed on most goods and services for domestic consumption. It is a comprehensive tax covering the manufacture, sale and consumption of goods and services across the nation, with taxation occurring at each value-added stage. GST addresses the shortcomings of the previous tax system by providing a unified structure.

India has adopted a dual GST model, where taxation is managed by both the Union and State Governments.

Intra-State Transactions : Levied with Central GST (CGST) by the central government and State GST (SGST) by the state government.

Inter-State Transactions and Imports : Subject to Integrated GST (IGST), collected by the central government.

- (iii) Favorable Government Policies : The Indian government supports outsourcing with lucrative incentives such as low tax rates, tax holidays and other business-friendly measures, making the environment conducive for MNC to outsource operations.

110. The benefit of being a member country of the WTO is limited for countries like India. Why?

Ans :

FOREIGN 2006

The World Trade Organization (WTO) aims to facilitate international trade among its member countries in an open, uniform and non-discriminatory manner. However, its focus is on the free movement of capital rather than labor. This primarily benefits multinational corporations (MNC), which are predominantly based in developed nations, allowing them to access markets in less developed countries like India.

Free movement of labor, which could have benefited underdeveloped nations by creating economic opportunities abroad, is not supported by the WTO. As a result, Indian labor is restricted from freely accessing labor markets in developed countries. Additionally, while developing nations are required to open their markets to goods and services from developed nations, they often face barriers when attempting to access the markets of developed countries. This imbalance has led to a sense of exploitation and unfairness among developing countries.

111. How have LPG policies centralized the growth process in urban areas?

Ans :

OD 2016

The LPG policies (Liberalization, Privatization and Globalization) have significantly concentrated the growth process in urban areas. Multinational companies (MNC) prefer establishing their operations in urban regions due to the availability of better infrastructural facilities, such as transportation, communication and energy, as well as skilled labor and access to markets.

Operating from urban areas provides these companies with convenient access to both tangible resources (like physical infrastructure) and intangible resources (like advanced services and networks). However, this urban-centric growth has widened the rural-urban divide, exacerbating economic dualism (disparities in income and development) and reinforcing social dualism (inequalities in living standards and opportunities between rural and urban populations).

112. Are bilateral trade agreements different from multilateral trade agreements? Who facilitates these agreements?

Ans :

SQP 2013

Bilateral Trade Agreements refer to agreements between two countries aimed at promoting trade and economic cooperation by reducing trade barriers like tariffs and import quotas.

Multilateral Trade Agreements, on the other hand, involve multiple countries coming together to establish trade rules and reduce trade barriers collectively, fostering international cooperation and market access among participants.

The World Trade Organization (WTO) plays a crucial role in facilitating both bilateral and multilateral trade agreements. It promotes free trade by encouraging the reduction of tariff barriers and the elimination of non-tariff barriers, ensuring smoother trade flows and cooperation in the global market.

113. “Indian economy has certain advantages, which have made it a favorite outsourcing destination.” Do you agree with the given statement? Give valid reasons in support of your answer.

Ans :

OD 2024

Yes, I agree with the statement. Outsourcing, a rapidly growing business practice, is a significant outcome of globalization. It involves companies hiring regular services from external sources, often from other countries, due to the cost advantage. These services can include legal advice, computer services, advertising and more.

India has become a preferred outsourcing destination for multinational corporations and even smaller companies because of its ability to provide these services at a lower cost while maintaining a reasonable degree of skill and accuracy. Key services outsourced to India include voice-based business processes (BPO), record-keeping, accountancy, banking services, film editing and even teaching. In the post-reform era, India's low-wage rates and abundant skilled manpower have established it as a global hub for outsourcing.

114. Though Outsourcing is good for our economy, the developed countries of the world are feeling threatened by Outsourcing of work to India. Why?

Ans :

OD 2015

interest rates, stimulating economic activity.

5. Improved Fiscal Position : Higher tax collections will strengthen the government's fiscal health, enabling better public spending.
6. Promotion of the Formal Sector : With more transactions moving into formal channels, demonetization supports the growth and integration of the formal economy.

134. Discuss the various objectives which were aimed at by the introduction of Goods and Services Tax in the field of indirect tax reforms.

Ans :

2014

The introduction of the Goods and Services Tax (GST) aims to achieve several objectives :

1. Elimination of Multiple Taxes : GST merges numerous central and state taxes into a single tax structure. This reduces cascading effects (double taxation) and establishes a unified national market, simplifying the tax system.
2. Reduction in Tax Burden : GST aims to lower the overall tax burden on goods and services, leading to reduced prices and directly benefiting the common man.
3. Boost Economic Growth : By enhancing the competitiveness of Indian products in both domestic and international markets, GST contributes to economic growth and faster GDP expansion.
4. Improved Tax Compliance : GST simplifies the tax structure and compliance process. Online availability of services like registration, returns and payments ensures higher compliance and better transparency. These objectives position GST as a key reform for streamlining taxation and fostering economic development.

135. Discuss some of the salient features of GST.

Ans :

SQP 2011

Salient Features of GST :

1. Destination-Based Taxation : GST follows the principle of destination-based consumption taxation, replacing the earlier origin-based taxation system.
2. Dual GST Model : Both the Centre (CGST) and the States (SGST/UTGST) levy GST simultaneously on a common tax base, ensuring shared revenue.
3. Integrated GST (IGST) : For inter-state supply of goods or services, IGST is levied by the central government to streamline tax

collection and distribution.

4. Imports of Goods : Imports are treated as inter-state supplies, attracting IGST in addition to applicable customs duties, ensuring uniform taxation.
5. Imports of Services : Import of services is also classified as inter-state supplies and is subject to IGST, maintaining consistency in taxation.
6. Tax Rate Determination : Rates for CGST, SGST/UTGST and IGST are mutually decided by the Centre and the States under the guidance of the GST Council (GSTC).

These features reflect GST's aim to simplify and unify India's indirect tax structure, enhancing efficiency and compliance.

136. GST has been widely heralded for the many benefits that have accrued to the economy, common man and industry and trade. Discuss some of them.

Ans :

COMP 2019

The introduction of GST has brought several significant benefits :

1. Fostering Economic Growth : By subsuming major central and state taxes, GST reduces the cost of locally manufactured goods and services, increasing their competitiveness in global markets. This boosts Indian exports, economic activities, GDP and employment generation.
2. Ease of Doing Business : Under the pre-GST regime, multiple indirect taxes required separate registrations. GST introduced a unified tax structure and automated procedures for registration, simplifying operations for businesses.
3. Attracting Foreign Investment : GST harmonized the tax base and administrative procedures across the nation, boosting foreign investment and promoting the "Make in India" initiative.
4. Ensuring Better Tax Compliance : A transparent set-off chain under GST has widened the tax base and improved compliance, ensuring efficient revenue collection.
5. Reducing Cost of Goods : By preventing cascading taxes (tax on tax), GST lowers production costs, making products cheaper, benefiting consumers and boosting aggregate demand in the economy.
6. Increasing Manufacturing Activities : Reduced tax burdens under GST lower

- (iii) Outcome of Transformative Policies : Globalization results from policies designed to promote greater interdependence and integration, as seen in how technological advancements in India are influenced by events happening globally.
- (iv) Transcending Boundaries : It creates networks and activities that transcend economic, social and geographical barriers, offering opportunities for developing countries to access global markets and enabling their industries to emerge as significant players on the international stage.

118. Market driven economic reforms have widened the economic disparities among nations and people. How?

Ans :

SQP 2021

The impacts of economic reforms, privatization and globalization can be better understood through the following observations :

- (i) Growth of Monopoly Power : Privatization has concentrated monopoly power in the hands of large business houses, leading to significant inequalities in income and wealth distribution.
- (ii) Adverse Effects on Government Employees : Privatization has caused job losses for many government employees, negatively affecting their livelihoods and job security.
- (iii) Challenges for Domestic Workers and Producers : Globalization has marginalized domestic workers and producers, as their products often fail to compete with international standards.
- (iv) Unequal Benefits of Globalization : Globalization has been primarily a strategy for developed countries to expand their markets in developing nations, while the latter have not equally benefited from access to developed markets.
- (v) Skewed Economic Growth : Economic reforms have largely benefited high-income groups, with growth concentrated in specific areas like the service sector, while critical sectors such as agriculture and industry have been left behind.

119. “New Economic Policy 1991 altered the role of Reserve Bank of India (RBI) in the economy.” Explain.

Ans :

OD 2024

With the introduction of economic reforms under the LPG policy in 1991, the Reserve Bank of India (RBI) transitioned from being a regulator to a facilitator of the financial sector. This shift granted greater autonomy to the financial sector, encouraging the free play of market forces to rejuvenate the sector.

A notable change was that commercial banks were allowed to determine their own interest-rate structure, enabling them to function with greater flexibility and competitiveness. This reform significantly boosted institutional funding for production units in the economy, contributing to enhanced economic activity and growth.

120. Discuss economic reforms in the light of social justice.

Ans :

DELHI 2010

Market-driven economic reforms have widened economic disparities among nations and individuals. This can be seen through the following observations :

- (i) Growth of Monopoly Power : Privatization has concentrated economic power in the hands of large business houses, exacerbating inequalities in income and wealth distribution.
- (ii) Impact on Government Employees : Privatization has adversely affected government employees, often leading to job losses and reduced job security.
- (iii) Challenges for Domestic Industries : Globalization has posed challenges for domestic industries, as their products often fail to compete with international standards, discouraging their growth.
- (iv) Unequal Benefits of Economic Reforms : The benefits of economic reforms have been skewed, favoring high-income groups and concentrating growth in selected areas like the service sector, while vital sectors such as agriculture and industry have lagged behind.
- (v) Jobless Growth : While GDP growth rates have increased during the reform period, this growth has not translated into adequate employment opportunities, earning the term “jobless growth.”

121. Elaborate how the economic reforms process of India impacted the following :

- (i) Agriculture sector
- (ii) Industrial sector

Ans :

OD 2024

Indian industries, several Indian industries have substantially increased their sales and also profits. The increase in competition is reflected in the increase in marketing costs and fall in profitability, but total profits have increased, due to higher sales. Another indication of increasing competitive strength of Indian companies is the rise in their export intensity, i.e., the ratio of exports to total sales. The growth impulse provided by the liberalization has increased competition in the domestic market and also larger business opportunities in foreign markets.

- (i) Value Added Taxes one of the taxes eliminated after implementation of goods and services tax.
- (ii) Trade between more than two countries is known as :
- Bilateral trade
 - multilateral trade
 - foreign trade
 - both (a) and (b)
- (iii) Identify the correct sequence of alternatives given in Column II by matching them with respective terms in Column I.

	Column I		Column II
1.	Establishment of general agreement on trade and tariff	A.	2017
2.	Establishment of World Trade Organization	B.	2016
3.	Implementation of GST	C.	1948
4.	Demonetization by Indian government	D.	1995

- B, A, D, C
 - C, A, D, B
 - D, A, B, C
 - C, D, A, B
- (iv) Which of the following is not a tax reform?
- Simplification of the tax procedures.
 - Devaluation of rupee.
 - Removal of export duties.
 - Both (b) and (c).

Ans :

- True
- (b) multilateral trade

- (d) C, D, A, B
- (c) Removal of export duties.

139. Read the para given below and answer the questions that follow :

The strategy of reforms introduced in India in July 1991 presented a mixture of macroeconomic stabilization and structural adjustment. It was guided by short-term and long-term objectives. Stabilization was necessary in the short-run to restore balance of payments equilibrium and to control inflation. At the same time changing the structure of institutions themselves through reforms was equally important from a long term point of view.

The new government moved urgently to implement a programme of macroeconomic stabilization through fiscal correction. Besides this, structural reforms were initiated in the field of trade, industry and the public sector.

The objective of these reforms was to bring about rapid and sustained improvement in the quality of life of the people of India. Central to this goal was the rapid growth in incomes and productive employment. Such growth required investment : in farms, in roads, in irrigation, in industry, in power and, above all, in people. And this investment must be productive. Successful and sustained development depends on continuing increases in the productivity of our capital, land and labour.

- The World Trade Organization was established as a successor organization to (GATT).
- _____ Measures are long term measures aiming at improving efficiency of the economy and increasing its international competitiveness.
 - Structural reform measures
 - Stabilization measures
 - Both (a) and (b)
 - Neither (a) nor (b)
- Sale of less than 49% stake of a public sector undertaking to the private sector is called as _____ sale.
 - Strategic
 - Minority
 - Portfolio
 - Direct
- Match the following items given in Column I with those in Column II to choose the correct pair of statement from the options given below :

The RTE Act guarantees every child the right to free and compulsory education.

20. Which organization was established in 1985 to provide inclusive education for school dropouts and working professionals?

(a) NCERT
(b) IGNOU
(c) UGC
(d) AICTE

Ans :

DELHI 2016

(b) IGNOU

IGNOU offers flexible educational opportunities to diverse groups.

21. What was the primary goal of establishing Navodaya Vidyalayas in 1987-88 ?

(a) Build technical skills among youth
(b) Provide quality education to talented rural students
(c) Improve urban literacy
(d) Support higher education programs

Ans :

COMP 2020

(b) Provide quality education to talented rural students

Navodaya Vidyalayas focus on offering modern education to gifted students from rural areas.

22. The Right to Education (RTE) Act, enacted in _____, ensures free and compulsory education for children aged 6-14 years.

(a) 1995
(b) 2001
(c) 2009
(d) 2015

Ans :

OD 2019

(c) 2009

The Right to Education (RTE) Act was passed by the Parliament in 2009, making free and compulsory education a fundamental right for children aged 6 to 14 years.

23. The Mid-Day Meal Scheme, introduced in _____, aims to increase school enrollment and improve children's nutritional status.

(a) 1987
(b) 1995
(c) 2001
(d) 2015

Ans :

FOREIGN 2021

(b) 1995

The Mid-Day Meal Scheme was launched in 1995 to enhance school enrollment, retention and nutrition among children.

24. The Digital India campaign, launched in _____, focuses on expanding digital connectivity across rural and remote areas.

(a) 1985
(b) 1995
(c) 2009
(d) 2015

Ans :

DELHI 2022

(d) 2015

The Digital India campaign was initiated in 2015 to enhance digital infrastructure and connectivity in India, especially in rural areas.

25. Navodaya Vidyalayas, established in _____, aim to provide quality education to talented students from rural areas.

(a) 1987-88
(b) 1995
(c) 2001
(d) 2015

Ans :

SQP 2023

(a) 1987-88

Navodaya Vidyalayas were established in 1987-88 to ensure modern and quality education for talented rural children.

26. The primary aim of the Sarva Shiksha Abhiyan (SSA) is to achieve _____ in elementary education across India.

(a) Digital literacy
(b) Vocational training
(c) Universalization
(d) Higher education access

Ans :

SQP 2011

(c) Universalization

The Sarva Shiksha Abhiyan focuses on ensuring elementary education for all children, promoting universal access and quality.

27. The Mid-Day Meal Scheme was introduced as a _____ scheme to enhance enrollment and retention in schools.

(a) Privately sponsored
(b) Centrally sponsored
(c) State-funded
(d) Internationally funded

Ans :

COMP 2001

utilization of world resources.

WTO aims at conducting the international trade among the member countries in an open, uniform and non-discriminatory manner. It focuses on the free movement of capital across different nations (and not on the free movement of labour). In fact, free flow of capital serves the commercial interest of multinationals (MNC) which largely belong to the developed nations. The MNC are able to find markets for their products in less developed countries like India. Free flow of labour, which would have served the economic interests of underdeveloped countries is not permitted by WTO. Accordingly, Indian labour does not have free access to the labour market of development nations. Also, developing countries are forced to open up their markets for developed countries but are not allowed access to the markets of developed countries. Therefore, developing countries feel cheated.

- (ii) Steps taken by India to strengthen the food security are
- (a) Introduction of citizen-centric food security programmes.
 - (b) Introduction of innovative delivery mechanisms such as One Nation One Ration Card Scheme.

NODIA

	Column I		Column II
1.	Foreign exchange Reform	A.	Reduction in tax rates
2.	Land Reform	B.	Devaluation of rupee
3.	Financial Sector Reform	C.	Origin of private banks
4.	Tax Reform	D.	Exemption of industries from licensing

- (a) 1-A (b) 2-B
(c) 3-C (d) 4-D

Ans :

FOREIGN 2006

- (i) True
(ii) (c) Both (a) and (b)
(iii) (b) Minority
(iv) (c) 3-C

140. Read the para given below and answer the questions that follow :

Globalization is the word used to describe the growing interdependence of the world's economies, cultures and populations, brought about by cross-border trade in goods and services, technology and flows of investment, people and information. Countries have built economic partnerships to facilitate these movements over many centuries. The wide-ranging effects of globalization are complex and politically charged. As with major technological advances, globalization benefits society as a whole, while harming certain groups. Understanding the relative costs and benefits can pave the way for alleviating problems while sustaining the wider payoffs.

Globalization is the web of relationships between economies worldwide by way of international trade and investments. While the history of globalization dates back to ancient times, the modern era of globalization began in earnest in the early nineteenth century. The opposite of economic globalization or free-market trade across borders is protectionism, an economic policy that attempts to protect domestic businesses from foreign competition and labour markets, usually by imposing trade barriers like tariffs.

- (i) Following is/are the benefit of globalization :
(a) Makes production more affordable.
(b) Brings opportunities to poor countries.
(c) Exploits cheaper labour markets
(d) Both (a) and (b)

- (ii) Why is globalization opposed by developed countries.
(a) It causes unemployment in their own countries.
(b) It results in outflow of funds.
(c) It promotes their service industry.
(d) Both (a) and (b)
- (iii) Following is not a factor responsible for the high growth of the service sector.
(a) Cheap labour and good skills
(b) Jobless growth
(c) Growth of IT sector
(d) Economic reforms
- (iv) The barriers which are imposed on the quantity of imports and exports are known as non-tariff barriers.

Ans :

SQP 2013

- (i) (d) Both (a) and (b)
(ii) (d) Both (a) and (b)
(iii) (b) Jobless growth
(iv) True

141. Read the following text carefully and answer the given questions on the basis of the same and common understanding :

India urged the World Trade Organization (WTO) to relax rules to allow the country to export food grains from its public stocks to the nations facing food crises. India can help, reduce food insecurity but there is hesitation on the part of the WTO, in relaxing its rules. India's Finance Minister said food, fuel and fertilizers are global public goods and ensuring access of these for developing and emerging economies is critical. She also shared India's experiences, including robust gains in agriculture production, citizen centric food security programmes and innovative delivery mechanisms such as the One Nation one Ration Card Scheme.

- (i) State and discuss any two objectives of World Trade Organization.
(ii) Name any two steps taken by India to strengthen the food security.

Ans :

DELHI 2023

- (i) (a) One of the objectives of WTO is to establish a rule based trading regime in which nations cannot place arbitrary restriction on trade.
(b) WTO aims at enlarging production and trade of services to ensure optimum

income) and human capital (measured by literacy rate, infant mortality rate and life expectancy) has grown simultaneously. In fact, growth in one sector has reinforced the growth of the other.

Per capita income at constant prices of 1999-2000 has increased from rupees 7,513 in 1950-51 to rupees 82,269 in 2016-17. This has resulted in higher living standards of the people. As a result, life expectancy has increased from 32 years in 1951 to 68.3 years in 2015.

4. ROLE OF HUMAN CAPITAL IN ECONOMIC GROWTH (IMPORTANCE OF HUMAN CAPITAL FORMATION)

Human capital plays a pivotal role in fostering economic growth by enhancing the productivity and efficiency of individuals and societies. Its importance can be summarized as follows :

1. **Effective use of physical capital :** Human capital leads to efficient utilization of physical capital. Technical and professional people can utilize machines and other productive assets in a much better way by enhancing their productivity
2. **Higher productivity levels :** Human capital helps in raising productivity levels in the country. Education gives people higher thinking skills and other technical skills which increases their capacity to earn more.
3. **Innovations and inventions :** Human capital facilitates innovations and creates ability to adopt new technology. An educated person has the potential to develop new skills and create new techniques which may be more efficient.
4. **Higher work participation rate :** Human capital formation increases the rate of participation of labour force in the process of production. Higher participation rate would mean more employment in the country.
5. **Increase in life expectancy :** It raises life expectancy as better healthcare facilities and availability of nutritive food enable people to live a healthy and longer life.
6. **Improvement in quality of life :** The quality of life of people depends upon the level of education, health of a person and skill formation acquired by them which improves in the process of human capital formation.
7. **Rural development :** Human capital can significantly contribute to rural development as educated farmers can easily adopt new agricultural techniques and methods of farming.

5. PROBLEMS IN HUMAN CAPITAL FORMATION IN INDIA

India faces several challenges in the formation of human capital, which hinder its ability to fully utilize its potential. These problems include :

1. **High growth rate of population :** Continuous rise in population has reduced the per capita availability of benefits of economic growth.
2. **Brain drain :** Loss of resources in terms of 'Brain Drain' is a serious outcome of migration when educated and skilled manpower moves to other countries in search of better opportunities of work.
3. **Lack of proper manpower planning :** Due to poor manpower planning, there is a lot of wastage of society's resources as capabilities of educated people are either not utilised or underutilised.
4. **Low level of academic standards :** Educational facilities in India have not developed as required for economic growth. Deficiency in skills leads to low levels of efficiency and productivity.
5. **Imbalances in resource allocation :** There exists imbalances in resource allocation as greater proportion of resources have been allocated to higher education meant for few people as compared to primary and secondary education.
6. **Inadequate resources :** The resources allocated to the formation of human capital have been much less than the resources required.

6. INADEQUACIES AND CHALLENGES IN EDUCATION

India faces numerous challenges in its education sector, which impede the development of human capital. Some of the key issues include:

1. **Inadequate expenditure on education :** The resources allocated to the formation of human capital have been much less than the resources required. Though government expenditure on education has increased, it is still quite less than the desired level of 6%.
2. **Widespread illiteracy :** Although literacy ratio has substantially improved, yet the absolute number of illiterates has increased. India is home to the largest number of illiterate people in the world accounting for about one-third of all illiterates.
3. **Gender bias :** Educational opportunities are not equally available to male and female children.
4. **Low educational access in rural areas :** The access to education is considerably low in the

rural areas as compared to urban areas.

5. **Higher education few takers :** The number of people reaching the higher education level is very less while the greater proportion of resources have been allocated to it as compared to primary and secondary education.
6. **Quality of education :** The quality of education is fairly low and is less relevant to the needs of the economy.
7. **Brain drain :** The country incurs loss due to 'Brain drain' as a huge amount is spent on technically training people whose services are ultimately not available to the economy as the more educated and skilled manpower move to other countries in search of better job opportunities.
8. **Difficulties in providing educational facilities :** There are areas where it is difficult to provide facilities of education as population is spread far and wide and people move to different places in different seasons to make both ends meet.

7. HUMAN CAPITAL FORMATION IN INDIA

Expenditure on education and health are carried out by the three tiers of the government—Union Government, State Government and Local Government (Municipal corporations, Municipalities and Village Panchayats).

8. REGULATION OF EDUCATION AND HEALTH SECTORS IN INDIA

The education and health sectors in India are regulated through various ministries, departments and organizations to ensure systematic development and management:

- (i) **Education Sector :** The education sector is governed by the Ministries of Education at the Centre and State levels. Regulatory bodies such as the National Council of Educational Research and Training (NCERT), University Grants Commission (UGC) and All India Council for Technical Education (AICTE) oversee curriculum development, higher education and technical education standards.
- (ii) **Health Sector :** The health sector is regulated by the Ministries of Health at the Union and State levels, alongside departments of health. Organizations like the Indian Council of Medical Research (ICMR) play a crucial role in guiding research, policy formulation and implementation of health programs.

9. INDIA AS A KNOWLEDGE ECONOMY

- (i) Entrepreneurs, bureaucrats and politicians are now advancing views about how India can transform itself into a knowledge based economy by using information technology (IT). Likewise, e-governance is being projected as the way of future.
- (ii) Two independent reports on the Indian economy in recent times say that India would grow faster due to its growth in human capital. World Bank has also expressed similar views in its report— "India and the knowledge economy-leveraging strengths and opportunities". The report states that the Indian economy has all the necessary key inputs such as vast group of skilled workers, a successful democracy and diversified science and technology infrastructure.

10. EDUCATION SECTOR IN INDIA

Growth in government expenditure on education—The expenditure by the government on education is expressed in two ways:

- (i) As a percentage of 'total government expenditure' and
- (ii) As a percentage of Gross Domestic Product (GDP).

10.1 Elementary Education

Elementary education plays a vital role in shaping the foundation of human capital and receives significant attention in public expenditure:

- (i) **Major Share in Education Expenditure :** Elementary education constitutes the largest portion of total education expenditure in India.
- (ii) **State-wise Variation in Expenditure :** The per capita public spending on elementary education varies significantly across states, reflecting disparities in resource allocation.
- (iii) **Differences in Opportunities and Attainments :** Variations in expenditure lead to unequal educational opportunities and attainment levels among states, affecting overall development.
- (iv) **Right to Education Act, 2009 :** The Government of India enacted the Right to Education (RTE) Act in 2009, making free and compulsory education a fundamental right for all children aged 6-14 years.

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10.2 Secondary Education

Secondary education in India focuses on providing quality education and skill development to prepare students for higher studies and employment:

- (i) **Vocationalisation of Secondary Education** : High priority is given to introducing vocational courses at the secondary level to equip students with job-oriented skills.
- (ii) **Navodaya Vidyalayas** : Residential schools, known as Navodaya Vidyalayas, were established in 1987-88 to offer modern and quality education to talented students, primarily from rural areas.
- (iii) **Kendriya Vidyalayas** : Kendriya Vidyalayas were set up to provide consistent educational opportunities for children of transferable central government employees.

10.3 Higher Education

Higher education in India focuses on both expanding access and improving quality to meet the needs of diverse learners:

- (i) **Quantitative Expansion and Quality Improvement** : Efforts are made to expand higher education institutions while giving special attention to enhancing their quality through better infrastructure, curricula and teaching standards.
- (ii) **Indira Gandhi National Open University (IGNOU)** : Established in 1985, IGNOU provides flexible educational opportunities for school dropouts, housewives, unemployed individuals and working professionals, promoting inclusive education.

11. EDUCATIONAL ACHIEVEMENTS IN INDIA

Generally, educational achievements in a country are indicated in terms of:

1. **Adult literacy rate** : This rate indicates the percentage of literate adult population who are aged 15 years and above.
2. **Primary education completion rate** : It includes basic education in reading, writing and mathematics along with an elementary understanding of other subjects such as geography, natural sciences.
3. **Youth literacy rate** : This rate indicates the percentage of literate people between the age of 15-24 who can read and write.

12. MAJOR EDUCATIONAL PROGRAMMES

India has implemented several significant educational programmes to enhance access, equity

and quality in education:

1. **Right to Education (RTE)** : The right of children to free and compulsory education Act or Right to Education Act (RTE), was passed by the Parliament on August 4, 2009. According to it, every child of the age 6 to 14 years shall have the right to free and compulsory education in neighbourhood school till completion of elementary education.
2. **Sary Shiksha Abhiyan** : Sary Shiksha Abhiyan (SSA) was launched in 2001. It is one of India's major flagship programmes for universalisation of elementary education.
3. **Digital India** : The government has launched Digital India campaign on July 1, 2015. The aim of this was to extend the reach of mobile network to all over India specially the remote and rural villages in order to convert India into a digital economy.
4. **Mid-day Meal Scheme** : With a view to increase enrollment, retention and attendance and simultaneously improve the nutritional levels among children, the mid-day meal programme was launched as a centrally sponsored scheme on August 15, 1995.

MULTIPLE CHOICE QUESTION

1. Indira Gandhi National Open University (IGNOU), established in _____, provides flexible educational opportunities to diverse groups.
 - (a) 1985
 - (b) 1995
 - (c) 2001
 - (d) 2015

Ans :

OD 2024

(a) 1985
IGNOU was established in 1985 to offer inclusive education through open and distance learning to cater to diverse learners.

2. What is the primary focus of the Sarva Shiksha Abhiyan (SSA), launched in 2001, as one of the major flagship programmes in India's education system?
 - (a) Improving higher education access
 - (b) Universalizing elementary education
 - (c) Providing vocational training
 - (d) Establishing digital infrastructure

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CHAPTER 9

HUMAN CAPITAL FORMATION IN INDIA

SUMMARY

1. HUMAN RESOURCE

Like any other resource (such as land or minerals, machines, buildings etc.), population is also a resource which is called human resource. Just as a country can turn physical resources like land into physical capital like factories, similarly, it can also turn human resources like students into human capital like engineers and doctors. Investments in human beings (through education, training, medical care, etc.) yields a return just like investment in physical capital.

2. MEANING OF HUMAN CAPITAL

Human capital is a crucial factor in the economic growth and development of a nation. It emphasizes the importance of investing in people to enhance productivity and innovation.

- (i) Human capital can be defined as the knowledge, ability, skill and physical capacity of the people which helps them to produce more.
- (ii) The process of development of human capital is termed as human capital formation.
- (iii) Population becomes human capital when investment is made in the form of education and health.
- (iv) Human capital is the stock of skills and productive knowledge embodied in human beings.

3. HUMAN CAPITAL AND HUMAN DEVELOPMENT

The two terms are similar but not the same. Human capital considers education and health as a means to increase labour productivity. According to it, investment in education and health is unproductive if it does not result in an increase in output of goods and services. On the other hand, human development considers education and health as integral to human well being. This

implies that basic education and basic health are important in themselves for an individual in order to lead a literate and healthy life irrespective of their contribution to labour productivity.

3.1 Sources of Human Capital Formation

Human capital formation is achieved through various investments that enhance the productivity and efficiency of individuals. These investments contribute significantly to the economic and social development of a nation.

1. **Investment in Education** : Investment in education is one of the main sources of human capital formation. People become a resource only when investment is made in education'
2. **Health Expenditure** : This keeps workers healthy and enables them to work for a longer period of time. It makes them contribute more to the country's GDP as compared to a sick person.
3. **Expenditure on giving on-the-job-training** : Expenditure regarding on-the-job-training is also a source of human capital formation as it results in increased labour productivity
4. **Expenditure on Migration** : People migrate from one place to another to find jobs that bring them higher income. It involves cost of transport, higher cost of living in the migrated places and psychic costs of living in a strange Place.
5. **Expenditure on acquiring information** : People also spend money to acquire information about the labour market and other markets like education and health. For example, people want to know about the level of wages and salaries in different types of jobs.

3.2 Relationship between Human Capital and Economic Growth

It is difficult to establish a cause and effect relationship between growth of human capital and economic growth. But statistics clearly show that economic growth (measured by real per capita

11. What is the primary focus of expenditure under the Sarva Shiksha Abhiyan (SSA)?

- (a) Improve higher education
- (b) Universalize elementary education
- (c) Provide scholarships
- (d) Enhance digital learning

Ans :

COMP 2013

(b) Universalize elementary education
Sarva Shiksha Abhiyan aims to provide elementary education for every child in India.

12. Which act guarantees free and compulsory education for children aged 6 to 14 years in India?

- (a) SSA Act
- (b) RTE Act
- (c) Digital India Act
- (d) NEP Act

Ans :

OD 2007

(b) RTE Act
The Right to Education (RTE) Act ensures free and compulsory education for children aged 6-14 years.

13. What is the main aim of the Mid-Day Meal Scheme introduced in 1995?

- (a) Promote technical education
- (b) Improve enrollment and nutrition
- (c) Expand higher education
- (d) Provide scholarships

Ans :

FOREIGN 2008

(b) Improve enrollment and nutrition
The scheme focuses on increasing school enrollment and improving the nutritional status of children.

14. Which schools were established in 1987-88 to provide quality education to talented students in rural areas?

- (a) Kendriya Vidyalayas
- (b) Navodaya Vidyalayas
- (c) Digital Learning Centers
- (d) SSA Schools

Ans :

DELHI 2009

(b) Navodaya Vidyalayas
Navodaya Vidyalayas aim to provide modern education to talented rural students.

15. What does the Digital India campaign, launched in 2015, primarily focus on?

- (a) Providing online courses
- (b) Expanding internet access
- (c) Increasing rural literacy
- (d) Building e-learning platforms

Ans :

SQP 2011

(b) Expanding internet access
Digital India promotes digital connectivity across rural and remote areas.

16. Which program aims at universalizing elementary education in India?

- (a) Digital India
- (b) Sarva Shiksha Abhiyan
- (c) RTE Act
- (d) Mid-Day Meal Scheme

Ans :

COMP 2018

(b) Sarva Shiksha Abhiyan
SSA focuses on providing universal access to elementary education.

17. What is the purpose of Kendriya Vidyalayas in India?

- (a) Promote digital education
- (b) Provide education for rural students
- (c) Offer consistent education to children of government employees
- (d) Encourage higher education enrollment

Ans :

OD 2015

(c) Offer consistent education to children of government employees
Kendriya Vidyalayas ensure quality education for children of transferable central government employees.

18. Which factor reflects the educational achievement of a country?

- (a) Number of universities
- (b) Adult literacy rate
- (c) Investment in technology
- (d) Number of vocational schools

Ans :

FOREIGN 2014

(b) Adult literacy rate
Adult literacy rate indicates the percentage of literate adults aged 15 and above.

19. What is the main objective of the RTE Act, enacted in 2009?

- (a) Promote rural literacy
- (b) Ensure free education for children aged 6-14 years
- (c) Build technical colleges
- (d) Provide free meals in schools

Ans :

SQP 2017

(b) Ensure free education for children aged 6-14 years

Ans :

OD 2000

(b) Universalizing elementary education
Sarva Shiksha Abhiyan aims to ensure elementary education for every child, focusing on access, equity and quality.

3. Which legislative act passed by the Indian Parliament in 2009 guarantees free and compulsory education to children aged 6 to 14 years?

- (a) Mid-Day Meal Scheme Act
- (b) Right to Education Act
- (c) Digital India Act
- (d) National Education Policy Act

Ans :

FOREIGN 2001

(b) Right to Education Act
The RTE Act ensures free and compulsory education for children aged 6 to 14 years.

4. What is the main objective of the Digital India campaign launched in 2015 to transform the country's digital infrastructure?

- (a) Enhance digital literacy
- (b) Expand internet access
- (c) Promote online education
- (d) Provide vocational training

Ans :

DELHI 2010

(b) Expand internet access
Digital India aims to enhance digital connectivity, especially in rural and remote areas.

5. What was the primary reason behind the introduction of the Mid-Day Meal Scheme in 1995 by the Indian government?

- (a) Ensure free education
- (b) Increase enrollment and nutrition
- (c) Provide scholarships
- (d) Introduce vocational courses

Ans :

SQP 2003

(b) Increase enrollment and nutrition
The Mid-Day Meal Scheme improves school attendance and nutritional levels.

6. Which residential schools were established in 1987-88 to provide modern and quality education to talented rural children?

- (a) Kendriya Vidyalayas
- (b) Navodaya Vidyalayas
- (c) SSA Schools
- (d) Digital Learning Centers

Ans :

COMP 2004

(b) Navodaya Vidyalayas

Navodaya Vidyalayas focus on offering quality education to talented rural students.

7. Which organization was set up in 1985 to offer flexible and inclusive educational opportunities to diverse groups?

- (a) UGC
- (b) IGNOU
- (c) AICTE
- (d) NCERT

Ans :

OD 2012

(b) IGNOU
IGNOU promotes open and distance learning for various groups.

8. What are Kendriya Vidyalayas primarily established to achieve within India's education system?

- (a) Provide vocational education
- (b) Offer consistent education for central employees' children
- (c) Promote digital learning
- (d) Offer rural education

Ans :

FOREIGN 2005

(b) Offer consistent education for central employees' children
Kendriya Vidyalayas ensure education for children of transferable government employees.

9. Which factor indicates a country's educational achievements?

- (a) Higher education enrollment
- (b) Adult literacy rate
- (c) School infrastructure in rural areas
- (d) Spending on technology

Ans :

DELHI 2006

(b) Adult literacy rate
The adult literacy rate reflects the percentage of literate individuals aged 15 years and above.

10. Which scheme provides free meals to children in schools to boost enrollment and retention?

- (a) Digital India Programme
- (b) Sarva Shiksha Abhiyan
- (c) Mid-Day Meal Scheme
- (d) Right to Education Act

Ans :

SQP 2007

(c) Mid-Day Meal Scheme
The Mid-Day Meal Scheme encourages school attendance by providing free meals.

(b) Centrally sponsored

The Mid-Day Meal Scheme, launched in 1995, is a centrally sponsored initiative to improve school enrollment and nutrition.

- 28.** The Digital India campaign, launched in _____, aims to create a digitally empowered society.
- 2001
 - 2009
 - 2015
 - 1987

Ans :

FOREIGN 2022

(c) 2015

The Digital India campaign focuses on digital infrastructure, governance and connectivity to transform India into a digital economy.

- 29.** The Right to Education (RTE) Act, passed in 2009, ensures free education for children in _____ schools.
- Neighborhood
 - Residential
 - Digital
 - Private

Ans :

DELHI 2002

(a) Neighborhood

The RTE Act mandates free education for children aged 6 to 14 years in neighborhood schools.

- 30.** Indira Gandhi National Open University (IGNOU), established in _____, provides education through distance learning methods.
- 1985
 - 2001
 - 1995
 - 2015

Ans :

OD 2003

(a) 1985

IGNOU was established in 1985 to offer flexible educational opportunities through open and distance learning methods.

- 31.** The stock of skill, ability, expertise, education and knowledge embodied in the people is called as
- human stock
 - human development
 - human capital
 - all of the above

Ans :

COMP 2010

(c) human capital

- 32.** The various forms of health expenditures include:
- social medicine
 - curative medicine
 - provision of clean drinking water
 - all of the above

Ans :

SQP 2004

(d) all of the above

- 33.** Which of the following is not a source of human capital formation?
- expenditure on migration
 - expenditure on education
 - expenditure on social development
 - expenditure on on-the-job training

Ans :

DELHI 2005

(c) expenditure on social development

- 34.** Which of the following is an indicator of educational achievement in a country?
- adult literacy rate
 - youth literacy rate
 - primary completion rate
 - all of the above

Ans :

OD 2006

(d) all of the above

- 35.** Which of the following is not an indicator of education level?
- Years of schooling
 - Life expectancy
 - Teacher-pupil ratio
 - Enrollment rate

Ans :

FOREIGN 2007

(b) Life expectancy

- 36.** Which level of education takes a major share of total education expenditure in India?
- Elementary
 - Secondary
 - Higher
 - Tertiary

Ans :

DELHI 2008

(a) Elementary

- 37.** What percent of GDP was invested in education in the year 1952?
- 7.92%
 - 11.7%
 - 0.64%
 - 3.31%

63. Assertion : Education and training increases productivity of people.

Reason : Productivity and production depends on technical skills of the people.

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
- (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

COMP 2020

(a) Assertion and reason both are correct statements and reason is correct explanation for assertion.

64. Assertion : Rural development in India is a core element for overall development of the nation.

Reason : More than two-third of India's population depends on agriculture.

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
- (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

OD 2022

(a) Assertion and reason both are correct statements and reason is correct explanation for assertion.

STATEMENT BASED QUESTIONS

65. Statement 1 : Self Help Groups (SHGs) have emerged to fill the gap in formal credit system.

Statement 2 : Formal credit system in India, is not only inadequate but also not fully integrated with rural social community development.

- (a) Statement 1 is true & Statement 2 is false.
- (b) Statement 1 is false & Statement 2 is true.
- (c) Both statements 1 & 2 are true.
- (d) Both statements 1 & 2 are false.

Ans :

DELHI 2020

(a) Statement 1 is true & Statement 2 is false.

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66. Which combination of the following statements is correct about the Right to Education (RTE) Act and educational initiatives in India?

1. The Right to Education (RTE) Act guarantees free and compulsory education for children aged 6-14 years.
 2. Navodaya Vidyalayas were established in 2001 to provide technical education to rural students.
 3. The Mid-Day Meal Scheme aims to improve school enrollment and nutrition among children.
 4. Sarva Shiksha Abhiyan (SSA) focuses on the universalization of elementary education in India.
- (a) Only 1 and 2 are correct
 - (b) Only 1, 3 and 4 are correct
 - (c) Only 2 and 4 are correct
 - (d) All statements are correct

Ans :

FOREIGN 2023

(b) Only 1, 3 and 4 are correct

The RTE Act ensures free and compulsory education for children aged 6-14 years. The Mid-Day Meal Scheme aims to improve enrollment and nutrition. Sarva Shiksha Abhiyan focuses on elementary education. However, Navodaya Vidyalayas were established in 1987-88, not 2001 and they provide quality education to talented rural students, not technical training.

67. Identify the correct combination of statements regarding the Digital India campaign and its objectives:

1. The Digital India campaign was launched in 2015 to expand internet connectivity across India.
 2. It focuses on improving digital literacy in urban and rural areas.
 3. It ensures free and compulsory education for children aged 6-14 years.
 4. It promotes the transformation of India into a digital economy.
- (a) Only 1, 2 and 4 are correct
 - (b) Only 1 and 3 are correct
 - (c) Only 2 and 4 are correct
 - (d) All statements are correct

Ans :

OD 2001

(a) Only 1, 2 and 4 are correct

The Digital India campaign was launched in 2015 to improve digital connectivity and literacy, transforming India into a digital economy. However, ensuring free and compulsory education

Ans :

SQP 2021

(d) Horticulture is the business related to producing, storing and distributing food grains.

47. Distribution of Outstanding Loan of Cultivator Households (Rural) % :

S. No.	Credit Agency	1971	2002
(i)	Government	7.1	1.7
(ii)	Co-operative Societies/Banks	22	30.2
(iii)	Commercial Banks	2.4	26.3
(iv)	Traders	8.4	2.6
(v)	Relatives and Friends	13.1	6.2

Which Institutional Agency (As given in the above table) has shown the maximum increase in the share of outstanding loan to cultivators:

- (a) Relatives & Friends
(b) Commercial banks
(c) Co-operative Societies/Banks
(d) Traders

Ans :

SQP 2023, 2001

- (b) Commercial banks

ASSERTION AND REASON

48. **Assertion :** People migrate to other countries to enhance their earnings.

Reason : Migration leads to psychic costs due to strange social cultural set up.

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
(b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
(c) Assertion is true but Reason is false.
(d) Assertion is false but Reason is true.

Ans :

OD 2024

- (b) Assertion and reason both are correct statements but reason is not correct explanation for assertion.

Inability of the economy to generate employment opportunities for the technically qualified leads to their migration to other countries in search of better job prospects.

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49. **Assertion :** The Government plays an important role in education and health service markets.

Reason : Government has acquired monopoly power in the education and health service markets.

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
(b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
(c) Assertion is true but Reason is false.
(d) Assertion is false but Reason is true.

Ans :

OD 2018

- (c) Assertion is true but Reason is false.

The government tries to ensure that the private providers of these services do not require a monopoly power and adhere to the standards stipulated by it and charge the correct price.

50. **Assertion :** Education and health care create private and social benefits.

Reason : Education and health are important sources of human capital formation

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
(b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
(c) Assertion is true but Reason is false.
(d) Assertion is false but Reason is true.

Ans :

SQP 2020

- (b) Assertion and reason both are correct statements but reason is not correct explanation for assertion.

Education and health are integral to human well-being. They lead to an increase in labour productivity which ultimately leads to benefits to the economy and society.

51. **Assertion :** Human Capital Formation stimulates innovation.

Reason : Education provides knowledge to understand scientific advancements.

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
(b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
(c) Assertion is true but Reason is false.
(d) Assertion is false but Reason is true.

Ans :

SQP 2009

(c) 0.64%

38. Which of the following is not a merit of human capital formation?

- (a) Improves technical knowledge
- (b) Enlarges the size of business
- (c) Increases cost of production
- (d) Changes social outlooks

Ans :

COMP 2011

(c) Increases cost of production

39. What was the average youth literacy rate in 2015?

- (a) 89.5%
- (b) 74%
- (c) 88%
- (d) 95.5%

Ans :

OD 2012

(a) 89.5%

40. Which of the following organisations regulates the health sector in India?

- (a) NCERT
- (b) UGC
- (c) AICTE
- (d) ICMR

Ans :

FOREIGN 2019

(d) ICMR

41. When was Right to Education Act enacted?

- (a) 2008
- (b) 2009
- (c) 2010
- (d) 2012

Ans :

DELHI 2014

(d) 2012

42. Match and choose the correct combination.

	Column I		Column II
(i)	Preventive medicine	A.	medical intervention during illness
(ii)	Curative medicine	B.	vaccination
(iii)	Social medicine	C.	the spread of health literacy

- (a) (i)-(B); (ii)-(A); (iii)-(C)
- (b) (i)-(A); (ii)-(B); (iii)-(C)
- (c) (i)-(C); (ii)-(B); (iii)-(A)
- (d) (i)-(B); (ii)-(C); (iii)-(A)

Ans :

SQP 2013

(a) (i)-(B); (ii)-(A); (iii)-(C)

43. What was the share of education in total government expenditure in 2014?

- (a) 7.92%
- (b) 15.7%
- (c) 0.64%
- (d) 3.31%

Ans :

COMP 2012

(b) 15.7%

44. Benefits of physical capital accrue only to private entities, whereas human capital provides private as well as _____ benefits. (Fill up the blank with correct alternative)

- (a) profitable
- (b) social
- (c) fiscal
- (d) monetary

Ans :

OD 2023

(b) social

45. Identify, which of the following are associated with the problem of human capital formation in India?

- (i) Brain drain
- (ii) Low academic standards
- (iii) Rising population
- (iv) Changes in social outlook

Alternatives:

- (a) (i) and (ii)
- (b) (ii) and (iii)
- (c) (i), (ii) and (iii)
- (d) (i) and (iv)

Ans :

OD 2023

(c) (i), (ii) and (iii)

46. Identify the incorrect statement from the following:

- (a) Horticulture has emerged as a successful sustainable livelihood option for farmers in India.
- (b) Horticulture is an important sector for potential diversification and value addition in agriculture.
- (c) India is blessed with supportive climatic and soil conditions for horticulture.
- (d) Horticulture is the business related to producing, storing and distributing food grains.

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
- (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

COMP 2015

(a) Assertion and reason both are correct statements and reason is correct explanation for assertion.

- 58. Assertion :** On-the-job-training is a source of human capital formation.

Reason : Workers may be sent off-campus for training.

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
- (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

OD 2007

(b) Assertion and reason both are correct statements but reason is not correct explanation for assertion.

On-the-job-training improves the skill and efficiency of workers and leads to an increase in the production of goods and services and productivity of labour.

- 59. Assertion :** The increase in educational expenditure by the government has been uniform.

Reason : The per capita educational expenditure differs considerably across states.

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
- (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

FOREIGN 2017

(d) Assertion is false but Reason is true.

There is a difference in the educational opportunities and attainments across states.

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- 60. Assertion :** Expenditure on education turns human beings into human capital.

Reason : Education increases the earning capacity of people and makes them crave for luxuries.

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
- (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

DELHI 2008

(c) Assertion is true but Reason is false.

Education helps acquire knowledge, skills, stimulates innovations and creates ability to absorb new technologies. It helps in changing the mental outlook and promotes the development of the economy.

- 61. Assertion :** Productivity of physical capital depends to a large extent on human capital formation.

Reason : Human capital is needed to make effective use of physical capital.

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
- (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

SQP 2019

(a) Assertion and reason both are correct statements and reason is correct explanation for assertion.

- 62. Assertion :** Human capital is not traded in the market; however its services are traded.

Reason : Human capital is intangible in nature.

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
- (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

SQP 2021

(a) Assertion and reason both are correct statements and reason is correct explanation for assertion.

Ans :

DELHI 2019

(a) Assertion and reason both are correct statements and reason is correct explanation for assertion.

- 52. Assertion :** Formation of human capital raises life expectancy of the people.

Reason : Rise in population has increased the quality of human resource.

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
 (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
 (c) Assertion is true but Reason is false.
 (d) Assertion is false but Reason is true.

Ans :

FOREIGN 2010

(c) Assertion is true but Reason is false.
 Better health facilities, better standard of living and availability of nutritious food enables people to live a healthy and longer life.

- 53. Assertion :** The current expenditure on education is more than adequate.

Reason : The literacy rates for both adults as well as youth have increased

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
 (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
 (c) Assertion is true but Reason is false.
 (d) Assertion is false but Reason is true.

Ans :

DELHI 2012

(d) Assertion is false but Reason is true.
 The General indicators of educational achievements in our country have shown an improvement.

- 54. Assertion :** Expenditure on health helps maintain labour productivity.

Reason : Poor health and undernourishment adversely affect the quality of manpower.

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
 (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
 (c) Assertion is true but Reason is false.
 (d) Assertion is false but Reason is true.

Ans :

SQP 2008

(a) Assertion and reason both are correct statements and reason is correct explanation for assertion.

- 55. Assertion :** The General productivity of the economy has remained low.

Reason : The performance in the fields of Science and Development of Modern Technology has remained unsatisfactory.

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
 (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
 (c) Assertion is true but Reason is false.
 (d) Assertion is false but Reason is true.

Ans :

COMP 2022

(a) Assertion and reason both are correct statements and reason is correct explanation for assertion.

- 56. Assertion :** Brain drain reduces the quality of human capital.

Reason : Imbalance between demand and supply of human resources of different categories has led to wastage of resources.

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
 (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
 (c) Assertion is true but Reason is false.
 (d) Assertion is false but Reason is true.

Ans :

FOREIGN 2023

(b) Assertion and reason both are correct statements but reason is not correct explanation for assertion.

Technically qualified persons like doctors, IT Professionals etc. migrate to other countries because of higher salaries and better job opportunities.

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- 57. Assertion :** Proper information helps in making correct decisions regarding investment in human capital.

Reason : Expenditure on information provides knowledge about different educational institutions, their educational standards and labour market.

is the focus of the RTE Act, not the Digital India campaign.

68. Which combination of the following statements is correct about Navodaya Vidyalayas and Kendriya Vidyalayas?

1. Navodaya Vidyalayas provide quality education to talented students from rural areas.
 2. Kendriya Vidyalayas offer consistent education for children of transferable government employees.
 3. Navodaya Vidyalayas were established in 1995 to provide vocational training to rural students.
 4. Kendriya Vidyalayas focus on universalizing elementary education in India.
- (a) Only 1 and 2 are correct
 - (b) Only 1, 3 and 4 are correct
 - (c) Only 2 and 4 are correct
 - (d) All statements are correct

Ans :

FOREIGN 2002

(a) Only 1 and 2 are correct
Navodaya Vidyalayas provide quality education to rural students and Kendriya Vidyalayas cater to children of transferable central government employees. Navodaya Vidyalayas were established in 1987-88, not 1995 and vocational training is not their primary focus. Kendriya Vidyalayas do not focus on universalizing elementary education, which is the aim of SSA.

69. Choose the correct combination of statements about Sarva Shiksha Abhiyan (SSA):

1. SSA was launched in 2001 to promote the universalization of elementary education.
 2. SSA aims to provide free meals to students to improve their nutritional status.
 3. SSA focuses on enhancing access, quality and retention in elementary schools.
 4. SSA ensures free and compulsory education for children aged 6-14 years.
- (a) Only 1 and 3 are correct
 - (b) Only 1, 3 and 4 are correct
 - (c) Only 2 and 4 are correct
 - (d) All statements are correct

Ans :

DELHI 2023

(a) Only 1 and 3 are correct
SSA focuses on universalizing elementary education and improving access, quality and retention. Free meals are part of the Mid-Day Meal Scheme and free and compulsory education is ensured by the RTE Act, not SSA.

70. Which combination of the following statements about the Mid-Day Meal Scheme is correct?

1. The scheme was launched in 1995 as a centrally sponsored initiative.
 2. It aims to increase school enrollment, retention and attendance.
 3. It provides vocational training to rural students.
 4. It improves nutritional levels among school-going children.
- (a) Only 1, 2 and 3 are correct
 - (b) Only 1, 2 and 4 are correct
 - (c) Only 3 and 4 are correct
 - (d) All statements are correct

Ans :

SQP 2004

(b) Only 1, 2 and 4 are correct
The Mid-Day Meal Scheme was launched in 1995 to improve enrollment, retention and nutritional levels among children. It does not focus on vocational training.

71. Identify the correct combination of statements regarding the Right to Education (RTE) Act:

1. The RTE Act was passed in 2009.
 2. It guarantees free and compulsory education for children aged 6-14 years.
 3. It focuses on providing free mid-day meals in schools.
 4. It ensures education in neighborhood schools for elementary students.
- (a) Only 1, 2 and 4 are correct
 - (b) Only 2, 3 and 4 are correct
 - (c) Only 1 and 3 are correct
 - (d) All statements are correct

Ans :

COMP 2005

(a) Only 1, 2 and 4 are correct
The RTE Act ensures free and compulsory education in neighborhood schools for children aged 6-14 years. The mid-day meals are covered under a different scheme.

72. Which combination of the following statements about Navodaya Vidyalayas is correct?

1. They were established in 1987-88 to provide quality education.
2. They are residential schools for talented students from rural areas.
3. They focus on promoting digital literacy in urban areas.
4. They provide vocational training for rural youth.

- (a) Right to Education (RTE)
- (b) Sarva Shiksha Abhiyan (SSA)
- (c) Mid-Day Meal Scheme
- (d) Digital India

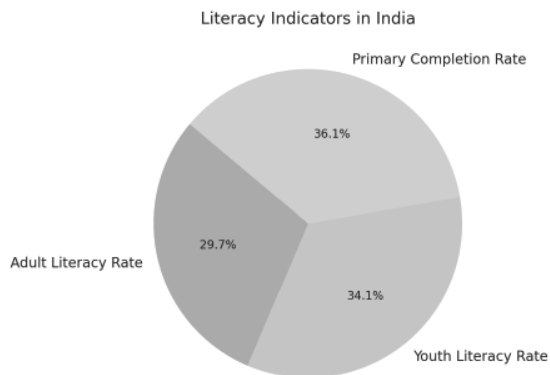
Ans :

COMP 2015

- (c) Mid-Day Meal Scheme

The pie chart shows the relative distribution of launch years for major educational programmes. The Mid-Day Meal Scheme, launched in 1995, is the earliest programme, followed by Sarva Shiksha Abhiyan (2001), Right to Education (2009) and Digital India (2015).

81. Based on the pie chart showing literacy indicators in India, which category has the highest percentage?



- (a) Adult Literacy Rate
- (b) Youth Literacy Rate
- (c) Primary Completion Rate
- (d) All categories have equal percentages

Ans :

DELHI 2004

- (c) Primary Completion Rate

The pie chart shows that the Primary Completion Rate is the highest at 36.1%, followed by Youth Literacy Rate at 34.1% and Adult Literacy Rate at 29.7%. This indicates a higher success rate in primary education compared to adult and youth literacy.

PASSAGE BASED QUESTION

82. The Right to Education (RTE) Act, 2009, ensures free education for children aged 6 to 14 years. Sarva Shiksha Abhiyan (SSA), launched in 2001, focuses on elementary education. The Mid-Day Meal Scheme, 1995, increases enrollment by providing meals.

Which statement is correct?

- (a) Mid-Day Meal ensures free education.
- (b) SSA focuses on elementary education.
- (c) RTE provides free meals.
- (d) SSA improves digital literacy.

Ans :

SQP 2011

- (b) SSA focuses on elementary education.

The passage states SSA focuses on elementary education. Mid-Day Meal provides meals and RTE ensures free education, not meals or digital literacy.

83. The Right to Education (RTE) Act, 2009, ensures free and compulsory education for children aged 6 to 14 years. The Mid-Day Meal Scheme, launched in 1995, provides meals to increase school attendance and improve nutrition.

Which statement is correct?

- (a) RTE focuses on school meals.
- (b) Mid-Day Meal improves attendance and nutrition.
- (c) RTE provides vocational training.
- (d) Mid-Day Meal ensures free education.

Ans :

COMP 2012

- (b) Mid-Day Meal improves attendance and nutrition.

The passage mentions that the Mid-Day Meal Scheme focuses on attendance and nutrition, while RTE provides free education, not meals or training.

84. Sarva Shiksha Abhiyan (SSA), launched in 2001, aims to universalize elementary education. The Digital India campaign, launched in 2015, focuses on expanding digital connectivity.

Which statement is correct?

- (a) SSA focuses on digital literacy.
- (b) Digital India promotes elementary education.
- (c) SSA aims to universalize elementary education.
- (d) Digital India ensures free meals.

Ans :

DELHI 2015

- (c) SSA aims to universalize elementary education.
- The passage highlights SSA's role in elementary education and Digital India's focus on digital connectivity, not education or meals.

85. The Digital India campaign, launched in 2015, aims to expand internet connectivity, especially in rural areas. Sarva Shiksha Abhiyan (SSA), launched in 2001, focuses on improving elementary education.

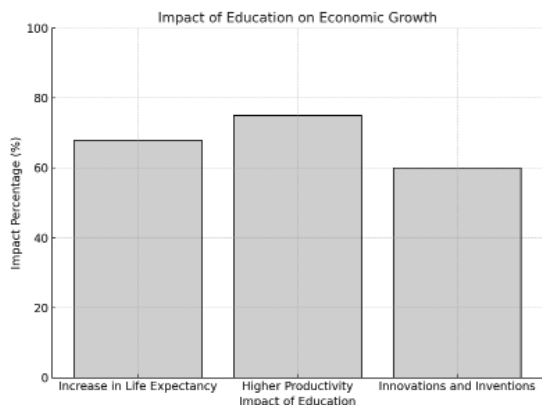
Ans :

SQP 2010

- (a) Elementary Education

The graph indicates that Elementary Education receives 50% of the total government expenditure on education, the highest among the three categories. Secondary Education follows with 30% and Higher Education receives 20%.

77. Based on the graph showing the impact of education on economic growth, which factor has the highest percentage impact?



- (a) Increase in Life Expectancy
(b) Higher Productivity
(c) Innovations and Inventions
(d) All have equal impact

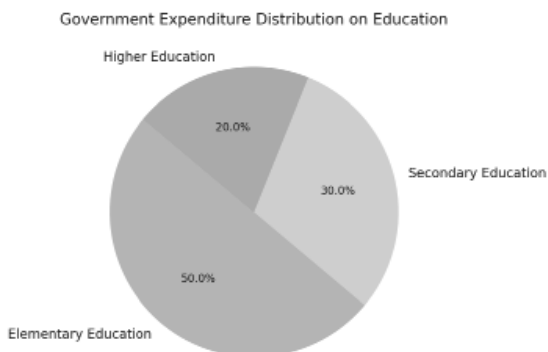
Ans :

COMP 2009

- (b) Higher Productivity

The graph shows that Higher Productivity has the highest impact percentage at 75%. Increase in Life Expectancy follows at 68% and Innovations and Inventions have a 60% impact. This highlights the significant role of education in improving productivity.

78. According to the pie chart showing the distribution of government expenditure on education, which category receives the largest share of the budget?



- (a) Elementary Education

- (b) Secondary Education

- (c) Higher Education

- (d) All categories receive equal funding

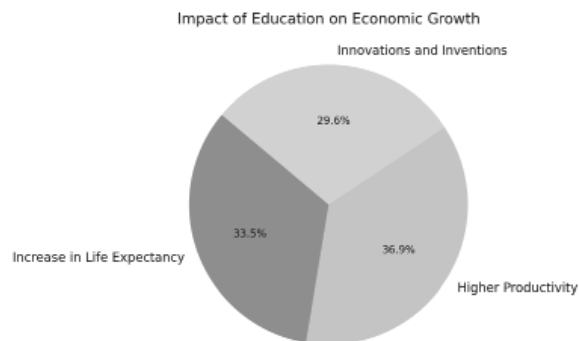
Ans :

OD 2010

- (a) Elementary Education

The pie chart indicates that Elementary Education receives 50% of the government expenditure on education, the largest share among the three categories. Secondary Education accounts for 30% and Higher Education receives 20%.

79. According to the pie chart on the impact of education on economic growth, which factor has the greatest impact?



- (a) Increase in Life Expectancy

- (b) Higher Productivity

- (c) Innovations and Inventions

- (d) All factors have equal impact

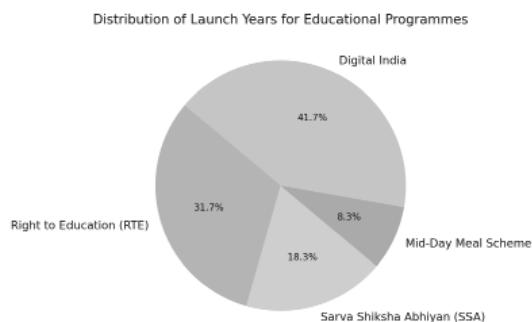
Ans :

SQP 2015

- (b) Higher Productivity

The pie chart shows that Higher Productivity has the greatest impact at 75%, followed by an Increase in Life Expectancy at 68% and Innovations and Inventions at 60%.

80. According to the pie chart, which educational programme was launched the earliest?



- (a) Only 1 and 2 are correct
- (b) Only 1, 2 and 3 are correct
- (c) Only 2 and 4 are correct
- (d) All statements are correct

Ans :

OD 2006

- (a) Only 1 and 2 are correct

Navodaya Vidyalayas provide quality education to talented rural students. They do not focus on digital literacy or vocational training.

- 73.** Which combination of the following statements is correct about the Digital India campaign?
1. It was launched in 2015 to promote digital connectivity across India.
 2. It focuses on expanding internet access, especially in rural areas.
 3. It ensures free and compulsory education for children aged 6-14 years.
 4. It aims to transform India into a digital economy.
- (a) Only 1 and 2 are correct
 - (b) Only 1, 2 and 4 are correct
 - (c) Only 2, 3 and 4 are correct
 - (d) All statements are correct

Ans :

FOREIGN 2007

- (b) Only 1, 2 and 4 are correct

The Digital India campaign aims to expand internet access and create a digital economy. Ensuring free education is the focus of the RTE Act, not Digital India.

- 74.** Choose the correct combination of statements about Sarva Shiksha Abhiyan (SSA):
1. SSA was launched in 2001.
 2. It focuses on universalizing elementary education in India.
 3. It ensures free meals to improve student retention.
 4. It aims to improve the quality of elementary education.
- (a) Only 1 and 2 are correct
 - (b) Only 1, 2 and 4 are correct
 - (c) Only 2, 3 and 4 are correct
 - (d) All statements are correct

Ans :

DELHI 2008

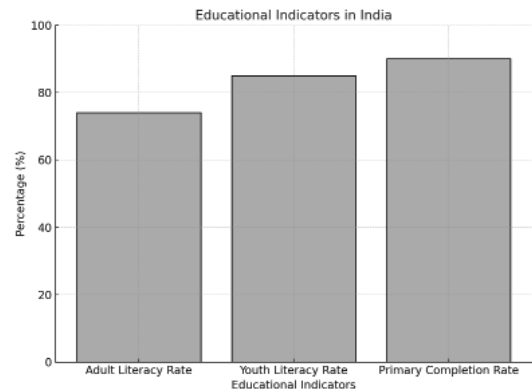
- (b) Only 1, 2 and 4 are correct

SSA was launched in 2001 to universalize elementary education and improve its quality. The provision of free meals is part of the Mid-Day Meal Scheme, not SSA.

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GRAPH BASED QUESTIONS

- 75.** Based on the bar graph showing educational indicators in India, which of the following has the highest percentage among the listed indicators?



- (a) Adult Literacy Rate
- (b) Youth Literacy Rate
- (c) Primary Completion Rate
- (d) All indicators are equal

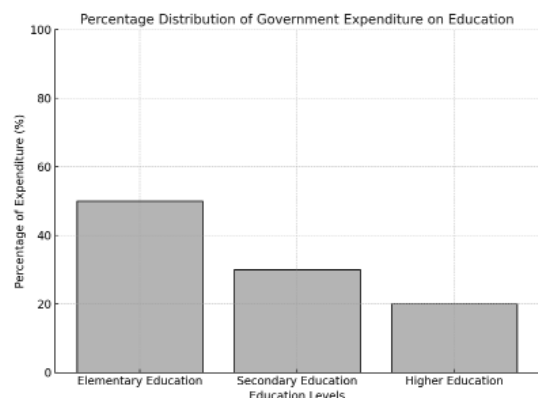
Ans :

SQP 2009

- (c) Primary Completion Rate

The graph shows that the Primary Completion Rate is 90%, the highest among the listed indicators. The Youth Literacy Rate follows at 85% and the Adult Literacy Rate is 74%.

- 76.** According to the graph showing the percentage distribution of government expenditure on education, which education level receives the highest percentage of funding?



- (a) Elementary Education
- (b) Secondary Education
- (c) Higher Education
- (d) All levels receive equal funding

Which statement is correct?

- (a) SSA aims to expand internet connectivity.
- (b) Digital India focuses on rural internet access.
- (c) Digital India promotes elementary education.
- (d) SSA provides free meals to students.

Ans :

FOREIGN 2013

(b) Digital India focuses on rural internet access. The passage specifies that Digital India focuses on internet connectivity, while SSA focuses on elementary education. Meals are not part of either programme.

- 86.** The Mid-Day Meal Scheme, launched in 1995, aims to increase school enrollment and improve nutrition. The Right to Education (RTE) Act, enacted in 2009, ensures free and compulsory education for children aged 6 to 14 years.

Which statement is correct?

- (a) Mid-Day Meal ensures free education.
- (b) RTE provides school meals.
- (c) Mid-Day Meal increases enrollment and nutrition.
- (d) RTE focuses on technical education.

Ans :

OD 2014

(c) Mid-Day Meal increases enrollment and nutrition.

The passage highlights the Mid-Day Meal Scheme's role in improving enrollment and nutrition, while RTE ensures free and compulsory education, not technical education or meals.

ONE MARK QUESTIONS

- 87.** What does HDI signify?

Ans :

OD 2000

HDI stands for Human Development Index, an indicator of human development based on three key dimensions: GDP per capita, life expectancy at birth and education, measured by adult literacy rate and gross enrollment ratio.

- 88.** Who prepares the Human Development Report?

Ans :

FOREIGN 2001

The United Nations Development Programme (UNDP), an agency of the United Nations, has been publishing the Human Development Report annually since 1990.

- 89.** What is India's ranking among countries on the Human Development Index?

Ans :

DELHI 2002

According to the UNDP Human Development Report, India is ranked 130th out of 189 countries.

- 90.** What is financial capital?

Ans :

SQP 2003

It refers to paper claims on physical capital.

- 91.** What is brain drain?

Ans :

COMP 2004

It refers to the migration of skilled labor to developed countries.

- 92.** State, whether the following statement is true or false:

"As per the Human Development Report, 2018, India was ranked at 180th position."

Ans :

OD 2020

False; Currently, India ranks 130th on the 2018 Human Development Index.

- 93.** What is Right to Education?

Ans :

OD 2005

In 2009, the Government of India passed the Right to Education Act (RTE), making education a fundamental right for all children in the age group of 6-14 years.

- 94.** State one major function performed by National Council Education Research and Training (NCERT).

Ans :

DELHI 2018

NCERT functions as the apex organization providing academic and technical support for the qualitative improvement of school education from Class 1 to 12.

- 95.** What is vocational education?

Ans :

FOREIGN 2006

It refers to education aimed at providing skills for specific occupations.

- 96.** What is the current and the desired level of public expenditure on education?

Ans :

DELHI 2018

The current level of expenditure on education is 4%, while the desired level is 6%.

- 142.** Explain the challenges being faced by the education sector despite massive developments.

Ans :

OD 2021

Despite significant progress in India's educational sector, several challenges persist:

1. **Gender Bias:** Female enrollment in elementary education lags behind males. Although the literacy gap is narrowing, societal attitudes toward educating girls remain a concern.
2. **Lack of Vocational Training:** The education system is degree-focused rather than job-oriented, with inadequate attention to vocational and technical education, contributing to widespread unemployment.
3. **Insufficient Government Expenditure:** Government spending on education is about 4% of GDP, falling short of the recommended 6%.
4. **Privatization:** The shift toward private education, due to better quality and facilities, makes education unaffordable for many due to high costs.
5. **High Illiteracy Rates:** While literacy improved from 18.3% in 1951 to 73% in 2011, the absolute number of illiterates remains significant.
6. **Limited Rural Access:** Disparities in educational facilities between rural and urban areas result in lower literacy rates in rural regions.
7. **Skills Mismatch:** Curricula often fail to align with job market requirements, creating a gap between the skills provided and those demanded.

- 143.** "In India women participation rate is lower in urban areas than in the rural areas." Explain with valid arguments.

Ans :

COMP 2023

Women's participation in work, particularly among urban women, remains low due to several factors:

1. **Lagging Education:** Limited educational opportunities for women reduce their access to jobs.
2. **Family Decisions:** In urban areas, families often discourage women from working, even when opportunities exist.
3. **Poverty in Rural Areas:** Higher female work participation in rural areas stems from economic necessity, though such jobs are often low-paying and less productive.

4. **Unrecognized Activities:** Tasks like cooking and household care, predominantly performed by women, are not considered economic activities.
5. **Rural-Urban Disparity:** More women work in rural areas due to the economic compulsion arising from poverty.

CASE BASED QUESTION

- 144.** Read the para given below and answer the questions that follow:

India has made significant progress in human capital formation through investments in education, health and skill development. These efforts contribute to economic growth, innovation and social well-being. However, challenges like inadequate resources, brain drain and disparities in educational access persist. Initiatives like the Right to Education Act (RTE), Sarva Shiksha Abhiyan (SSA) and Digital India aim to improve access, equity and quality in education. Public expenditure on elementary education remains a focus, as it forms the foundation for higher education and economic participation.

1. What is human capital formation and how does investment in education contribute to it?
2. Name two significant initiatives taken by the Indian government to improve elementary education.
3. What are the challenges faced by India in the education sector, as mentioned in the case?
4. How does the Mid-Day Meal Scheme aim to improve educational outcomes?

Ans :

1. Human capital formation refers to the process of developing skills, knowledge and productivity in individuals. Investment in education enhances cognitive abilities and technical skills, enabling people to contribute effectively to the economy.
2. Two significant initiatives are the Right to Education Act (2009) and Sarva Shiksha Abhiyan (2001).
3. Challenges include inadequate expenditure on education, brain drain, widespread illiteracy, gender bias and low access to education in rural areas.

and health as essential for well-being, regardless of productivity. Human development considers quality of life and access to basic services as equally important.

- 107.** State any two problems in human capital formation in India.

Ans : OD 2014

- (i) High population growth reduces per capita benefits of economic growth, straining resources.
- (ii) Brain drain leads to loss of skilled manpower to other countries, limiting India's ability to fully utilize its potential workforce.

- 108.** Mention two inadequacies in India's education system.

Ans : FOREIGN 2015

- (i) Inadequate expenditure on education, which is less than the desired 6%, hampers the development of infrastructure and learning resources.
- (ii) Widespread illiteracy, with India home to the largest number of illiterates globally, limits social and economic progress.

- 109.** A strong foundation in education equips individuals with the skills and knowledge needed to contribute effectively to society. Early education is the starting point for nurturing a capable and skilled workforce. Explain the importance of elementary education in human capital formation.

Ans : DELHI 2016

Elementary education forms the foundation for human capital, receiving the largest share of public expenditure and ensures basic literacy and numeracy for all children. It also prepares them for higher education and skill development.

- 110.** What is the role of Navodaya Vidyalayas in India's education system?

Ans : SQP 2017

Navodaya Vidyalayas provide modern, quality education to talented students, especially from rural areas, ensuring equitable access to learning. They aim to bridge the educational gap between urban and rural areas.

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THREE MARK QUESTIONS

- 111.** Explain the role of affordable healthcare facilities in promoting human capital in a country.

Ans : SQP 2024

Human capital refers to the skills, knowledge, expertise and education possessed by individuals. To enhance human capital, investment in human resources is essential. Affordable healthcare is a crucial investment for increasing the availability of a healthy workforce. Poor health and malnutrition negatively impact the quality of labor. Therefore, spending on healthcare is vital for developing a productive workforce and improving people's quality of life. Proper nutrition and accessible healthcare contribute to the overall enhancement of human capital.

- 112.** Discuss the need for on-the-job training for an employee.

Ans : DELHI 2024, 2020

The productivity of physical capital improves significantly with better human capital, which is why many firms offer on-the-job training. This training is quick and cost-effective, boosting workers' skills and efficiency, leading to higher production and productivity. On-the-job training can take two forms:

- (i) training within the firm under the guidance of a skilled worker, or
- (ii) sending workers for off-campus training.

After training, firms often require workers to stay for a certain period to recover the benefits of the enhanced productivity, making it a valuable source of human capital formation.

- 113.** "National Education Policy 2020 of India stresses a lot on in-service teachers' training."

In the light of the given statement, state and explain any two advantages of such on-the-job training in the upliftment of education sector of any nation.

Ans : SQP 2024

The National Education Policy 2020 emphasizes in-service teacher training to enhance skills and productivity for achieving better performance. This training helps teachers acquire new skills, adapt to modern technologies and align with policy goals. It ensures they effectively implement the New Education Policy, resulting in positive outcomes.

Human development are as follows

	Human Capital	Human Development
1.	Human capital considers education and health as a means to increase labour productivity.	Human development considers education and health as being integral to human well being because only when people are educated and healthy, they will be able to make better choices.
2.	Human capital treats human beings as a means to achieve the end result. i.e, increase in productivity.	Human Development considers human beings as ends in themselves and aims at increasing human welfare through investments in education and health.
3.	According to the concept of human capital, any investment in education and health is unproductive if it does not enhance output of goods and services.	According to the concept of Human Development, investment in education and health is worthwhile if it increases human welfare even though it may not result in higher labour productivity.

- 126.** Human progress is assessed not only by the skills and abilities of individuals but also by their overall well-being and access to opportunities. This raises the question: Is human development a broader term as compared to human capital?

Ans :

OD 2023

Human development is a broader concept emphasizing education and health as essential for overall well-being, while human capital focuses narrowly on their role in boosting labor productivity. Human capital views investments in education and health as unproductive unless they increase output. In contrast, human development prioritizes improving welfare through such investments, regardless of productivity gains. Hence, human development encompasses a more comprehensive perspective than human capital.

- 127.** Discuss the various indicators of educational achievements.

Ans :

FOREIGN 2001

A country's educational achievements are measured by:

1. Adult Literacy Rate : The percentage of literate adults aged 15 and above, where literacy means the ability to read and write.
2. Primary Education Completion Rate : The percentage of students finishing the final year of primary school. A rate below 100% suggests issues in providing free and compulsory education.
3. Youth Literacy Rate : The percentage of literate individuals aged 15-24 who can read and write.

- 128.** Education is a key driver of human capital formation, contributing to economic growth and social development. Governments emphasize this by allocating significant funds to improve access and quality. How is importance of education reflected in public expenditure on education?

Ans :

DELHI 2004

Government expenditure on education is measured in two ways:

1. Percentage of Total Government Expenditure : Reflects the priority given to education within government programs. Greater expenditure signifies higher importance.
2. Percentage of GDP : Indicates the share of national income allocated to education development.

Higher educational spending as a proportion of GDP or government expenditure shows greater emphasis on education in a country's economic development.

- 129.** Why do educational achievements differ in different states?

Ans :

SQP 2005

Regional differences in educational attainment arise due to:

1. Variations in Per Capita Public Expenditure: States like Himachal Pradesh spend significantly more (₹34,651) on elementary education compared to Bihar (₹4,088).
2. Employment Opportunities: Uneven availability of jobs across regions affects education levels.
3. Income Disparities: Different income levels and spending capacities of people contribute to varied educational outcomes among states.

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capital like engineers and doctors. While physical capital is created by humans, low investment in human capital leads to underutilization of physical capital, resulting in slower economic growth. Without human capital, physical capital would not have been realized, although physical capital serves as the foundation for developing human capital.

- 120.** “Human capital formation prompts the process of growth and growth prompts the process of human capital formation.” Explain the chain of events which leads to the above effect.

Ans :

DELHI 2011

Human capital formation, which refers to increasing the stock of human capital, ensures better utilization of physical capital. This enhances the productivity of physical capital, resulting in higher output per unit of labor and capital. Consequently, the GDP rises due to greater workforce participation, leading to increased employment. Higher individual and household incomes enable greater expenditure on education and healthcare, further enriching human capital. This ongoing cycle of investment and development is integral to human capital formation.

- 121.** State, with valid reasons whether, the following statements are true or false:

“Higher productivity and production are the outcome of investment in human resources.”

Ans :

OD 2023

- (i) Higher productivity of physical capital: Human capital formation enhances the productivity of physical capital by allowing skilled individuals to handle and utilize resources more effectively. As people become more intelligent and skilled, they can operate and manage physical capital better, thus driving economic growth.
- (ii) Higher productivity levels: Human capital boosts productivity by equipping individuals with the skills and knowledge needed to earn more and improve their living standards. Education increases a person's potential to contribute to the economy, leading to higher overall productivity in the country.

- 122.** “Increases in human capital are crucial for achieving an increase in GDP”. Comment.

Ans :

COMP 2012

India has long recognized the importance of human capital for economic growth. The Seventh Five Year Plan emphasizes that a large, educated and trained population can accelerate growth and drive social change. Economic growth is an increase in national income and both education and health enhance an individual's income-generating potential. A healthy person contributes by providing a steady labor supply, while an educated person contributes more through knowledge, innovation and understanding societal changes. Therefore, investing in human capital is key to accelerating economic development.

- 123.** Access to accurate and relevant information plays a key role in enhancing the skills and productivity of individuals. It serves as a vital resource for building and utilizing human capital effectively. What is information with reference to human capital?

Ans :

FOREIGN 2012

Human capital information includes details about various jobs, their wages and salaries. It also covers information about educational institutions, their costs and whether they provide appropriate skills. This information is crucial for making informed decisions about investing in human capital, as investments in education and health have long-term, irreversible effects.

- 124.** Migration often enables individuals to access better opportunities for education, employment and skill development. These improvements contribute to increasing their productivity and economic value. State why expenditure on migration is considered as a source of human capital formation.

Ans :

COMP 2019

Migration from rural to urban areas occurs mainly due to unemployment and the pursuit of better income and facilities. It involves costs such as transportation, higher living expenses and the psychological adjustment to a new socio-cultural environment. Despite these costs, the income gained from migration often surpasses the expenditure. Therefore, migration expenditure is regarded as a contributor to human capital formation.

- 125.** Differentiate between the concepts of human capital and human development.

Ans :

COMP 2022

The difference between Human capital and

3. Fertility Rate Impact: They are more likely to understand and adopt family planning measures, positively influencing fertility rates.
4. Gender Equality: Women's education fosters equality by challenging societal norms and promoting equal opportunities.

FOUR MARK QUESTIONS

- 136.** Differentiate between Physical Capital and Human capital.

Ans :

FOREIGN 2024

The difference between Physical Capital and Human Capital are as follows :

	Physical Capital	Human Capital
1.	Physical capital is tangible and can be easily sold in the market.	Human capital is intangible and cannot be sold in the market.
2.	Physical capital (like machinery) can be separated from its owner.	Human capital (like skills and efficiency of a person) cannot be separated from the owner.
3.	It is used to produce goods and services.	It increases the efficiency to produce goods and services.
4.	Physical capital is the outcome of a conscious decision of the owner and is mainly an economic and technical process.	Formation of human capital is partly a social process and partly a conscious effort of the possessor of human capital.
5.	It can be built through imports.	It is built through conscious policy formations.
6.	It is more mobile between countries.	Human capital is less mobile between countries as compared to physical capital.
7.	Physical capital creates only private benefits.	Human capital creates private as well as social benefits.

- 137.** Highlight the importance of education in the process of human resource development.

or

“Education is the undercurrent of economic and social change.” Highlight its importance in human capital.

or

Explain the role of quality education in human capital formation in a country.

Ans :

COMP 2024

Education encompasses teaching, training and learning, playing a pivotal role in societal and individual development. Its importance includes:

1. Responsible Citizens and Skilled Workers : Education cultivates responsible individuals and skilled labor.
2. Science and Technology : It fosters scientific progress and helps people adapt to societal and technological changes.
3. Enhanced Productivity : Education boosts productivity, raising people's earning potential.
4. Economic Growth : It encourages active participation in economic development, driving growth.
5. Broader Perspectives : Education widens mental horizons, aiding informed decision-making.
6. Resource Efficiency : It ensures the effective utilization of natural and human resources across the country.
7. Eradication of Social Evils : Education promotes awareness, helping eliminate societal issues.

- 138.** The development of human capital relies on multiple factors that enhance skills, knowledge and productivity. These sources collectively contribute to economic growth and societal progress. Discuss the various sources of human capital formation.

Ans :

DELHI 2022

Human capital can be enhanced through various means. Key sources of its formation include:

1. Education Expenditure: Investing in education boosts efficiency and skills, akin to firms investing in capital goods for future profits. It broadens mental capabilities, yielding earnings surpassing the initial costs and transforming individuals into human capital.

- 130.** Enumerate the main drawbacks of education at the secondary level.

Ans :

COMP 2009

Secondary education in India faces two primary challenges. Firstly, there is a low enrollment ratio among students aged 14–18 years in secondary (classes 9–10) and senior secondary (classes 11–12) levels, indicating unsatisfactory participation. Secondly, progress in vocational education is inadequate. While the target was to divert 25% of senior secondary students towards vocational streams, only about 5% have been enrolled, reflecting a significant shortfall in meeting vocational education goals.

- 131.** Argue in favour of the need for different forms of government intervention in education and health sectors.

or

Why is government intervention in education sector essential?

Ans :

FOREIGN 2010

Investment in education and health is vital for developing human capital, requiring government intervention for several reasons. First, these investments have irreversible long-term effects on human resources. Second, consumers often lack full information on the quality and costs of services. Third, without such information, private providers may exploit their monopoly power. Lastly, education and health require substantial investment and high fixed costs, which private players might only undertake at unaffordable prices. Government oversight ensures service standards, fair pricing and accessibility for all.

- 132.** Higher education plays a critical role in advancing innovation and economic growth, yet challenges persist in ensuring its accessibility and quality. Addressing these concerns is vital for holistic development. Highlight the areas of concern in higher education.

Ans :

DELHI 2015

Higher education has substantially expanded over time but there are certain aspects which are still lagging behind. These are:

- (i) The expansion in education is largely confined to general education. Of the total enrollment for higher education, only 20% is for professional education.
- (ii) The problem of unemployment among those

with higher education is assuming alarming proportions. There is a widening gap between job seekers with higher education and their demand in the job market.

- 133.** Ensuring universal access to education has been a global goal, with numerous efforts to reduce disparities in learning opportunities. However, challenges like inequality and resource gaps remain. Have we been able to achieve the “education for all” objective?

Ans :

SQP 2019

Despite an increase in literacy rates among adults and youth, the absolute number of illiterates in India remains as high as the population at independence. The Constitution’s Directive Principles in 1950 mandated free and compulsory education for children up to 14 years, aiming for universal literacy. However, the failure to fully implement this directive has hindered progress. Achieving this goal would have ensured 100% literacy by now. Thus, India is still far from realizing the objective of “education for all.”

- 134.** ‘There is a downward trend in inequality worldwide with the rise in the average education levels’. Comment.

Ans :

COMP 2016

It would be correct to say that inequality worldwide is decreasing as the average education level rises. This would be due to the fact that education leads to skill formation and enables a person to generate more income. Higher income earning capacity and greater acceptability of modern techniques raises the standard and quality of living thereby reducing inequality in income and promoting opportunities for development in the world.

- 135.** Why is it important to educate the women of a country?

or

Discuss the need for promoting women’s education in India.

Ans :

OD 2023

Educating women is essential for the development of a country because:

1. **Economic Independence:** Education empowers women to be financially self-reliant and enhances their social standing.
2. **Improved Healthcare :** Educated women contribute to better healthcare quality and access for themselves and their children.

97. What is education cess?

Ans :

DELHI 2007

Education cess is a tax levied to help cover the cost of government-sponsored programs, with the revenues specifically earmarked for spending on elementary education.

98. Which committee took the decision to bring all Indian children in the age group of 6-14 years under the purview of school education?

Ans :

DELHI 2018

The Tapas Majumdar Committee

99. Why are there differences in educational opportunities and attainments across states?

Ans :

SQP 2008

This is because the per capita public expenditure on elementary education varies significantly across states.

100. Name the apex body in the field of medical research.

Ans :

COMP 2009

Indian Council of Medical Research (ICMR).

It has decreased the per capita access to the benefits of economic growth, such as housing, healthcare and education. Additionally, the growing population has diminished the ability to acquire the skills and expertise essential for economic development.

103. What do you mean by universalisation of elementary education?

Ans :

FOREIGN 2010

Universalisation of elementary education refers to ensuring universal access, enrollment, retention and quality education for children up to the age of 14. It aims to make education available to all children aged 6 to 14, covering classes 1-7. This concept emphasizes that every child should complete elementary education through either formal or non-formal methods.

104. Investing in people's skills and education is as crucial as investing in physical infrastructure for sustainable progress. Human resources are the backbone of any economy. Define human capital and explain its significance in economic growth.

Ans :

DELHI 2011

Human capital is the stock of knowledge, skills and productivity embodied in people, crucial for economic growth. It enhances productivity, fosters innovation and improves the quality of life by enabling individuals to effectively use resources and technology.

TWO MARK QUESTIONS

101. The progress of a nation is measured not just by economic growth but by the well-being and opportunities available to its people. Ensuring access to basic needs and choices is central to this idea. State the meaning of 'Human Development'.

Ans :

OD 2024

Human Development emphasizes that education and health are crucial for human well-being, viewing individuals as ends in themselves. It is a broader concept, as it recognizes the importance of both education and health in enhancing the overall quality of life and well-being.

102. State, with valid reason whether, the following statement is true or false.
Rising population is not the cause for quality of human capital formation.

Ans :

OD 2023

The continuous increase in population has negatively impacted the quality of human capital.

105. What are the main sources of human capital formation?

Ans :

SQP 2012

The main sources are investment in education, health expenditure, on-the-job training, migration for better opportunities and acquiring information about markets. These investments improve individuals' capabilities, enabling them to contribute effectively to the economy.

106. Human beings are considered both ends and means of development. Their abilities, skills and overall well-being play a crucial role in determining the progress of a nation. How does human capital differ from human development?

Ans :

COMP 2013

Human capital focuses on increasing labour productivity through education and health, while human development emphasizes education

2. **Health Expenditure:** Spending on health enhances productivity by improving physical and mental abilities. Key areas include preventive care, treatment, health education, clean water and sanitation.
3. **On-the-job Training:** Firms enhance worker productivity by offering in-house or external training, requiring workers to stay for stipulated periods to recoup training costs.
4. **Migration:** Migration for better opportunities increases income despite associated costs like transport and adaptation to new environments.
5. **Information Expenditure:** Costs incurred in acquiring data about education, health and labor markets aid in making informed decisions, fostering human capital utilization..

139. Human capital formation contributes to the process of growth and development. Elaborate.

or

Explain, how does 'Investment in Human Capital' contribute to the growth of an economy.

Ans :

SQP 2020

Human capital refers to the knowledge, skills, abilities and physical capacities of individuals that contribute to production. It represents the stock of productive skills within human beings. The development of human capital through investment is termed human capital formation. Its contributions to growth and development include:

1. **Higher Physical Capital Productivity:** Skilled human capital enhances the efficiency of physical capital, spurring economic growth.
2. **Innovative Skills:** Trained personnel increase innovation and adaptability to new technologies.
3. **Modern Attitudes:** Investments transform outlooks, fostering economic progress.
4. **Participation and Equality:** Improved productivity raises employment, boosting participation and equality.
5. **Increased Productivity:** Education equips people to earn more, improving living standards.
6. **Life Expectancy:** Better health and nutrition lead to longer, healthier lives.
7. **Population Control:** Education spreads awareness, reducing population growth.
8. **Rural Development:** Education combats ignorance, enabling rural innovation and employment through advanced farming and small industries.

140. "Active Government intervention is essential in education and health sectors in India."

Do you agree with the given statement? Give reasons in support of your answer.

Ans :

DELHI 2023

I agree that expenditure on education and health is crucial for human capital formation. Government intervention is essential for the following reasons:

1. **Long-term Impact:** Education and health investments have lasting effects on human resources and cannot be undone.
2. **Information Gap:** Consumers lack complete knowledge about the quality and cost of services.
3. **Monopoly Risk:** Without information, private providers may exploit their monopoly power in these sectors.
4. **High Investment Costs:** Education and health require significant fixed investments, deterring private investors unless high prices are charged.

Government oversight ensures private providers meet standards and maintain fair pricing, keeping these vital services accessible to all.

141. "Economists believe that India should spend at least 6% of its GDP on Education for achieving desired results." Justify the statement with valid reason.

Ans :

SQP 2020

Human Capital Formation involves investing in individuals to develop them as creative and productive resources. Education contributes significantly to economic growth in several ways:

1. **Higher Earnings and Social Standing:** Education enhances earning potential and improves social status.
2. **Knowledge and Innovation:** It equips individuals to understand societal changes and fosters innovation.
3. **Adoption of New Technologies:** Education supports technological advancements.

Despite its importance, government expenditure on education remains below the recommended level. The Education Commission (1964-66) suggested allocating 6% of GDP to education, yet current spending is just over 4%, which is inadequate. Initiatives like the 2009 Right to Education Act and a 2% education cess on Union taxes aim to improve funding. Achieving the 6% target is essential for advancing education and national development.

- 114.** The growth and development of a nation depend significantly on the quality of its human resources. Investing in education, health and skill development enhances the productivity and efficiency of individuals. Write a brief note on human capital formation.

Ans :

COMP 2019

Human capital formation refers to the development of skills, knowledge and abilities among a country's population. It involves acquiring and enhancing the number of individuals with the necessary education, skills and experience for economic and political growth. This process is seen as an investment in people, turning them into productive and creative resources. Human capital formation thus involves transforming individuals into capable workers who can contribute to the production of goods and services, continuously increasing the human capital stock over time.

- 115.** What is human capital formation? State three ways of developing human resources.

Ans :

OD 2019

Human capital formation involves developing skills and abilities within a country's population. Three key ways to enhance human resources are:

- (i) Ensuring access to good health services to improve life expectancy, strength and vitality.
- (ii) Offering on-the-job training to boost skills, knowledge and productivity of the workforce.
- (iii) Providing formal education at elementary, secondary and higher levels to equip the population with necessary knowledge and competencies.

- 116.** "Human Capital Formation gives birth to innovation, invention and technological improvements."

Do you agree with the given statement? Support your answer with valid arguments.

Ans :

SQP 2020

I agree with the statement that human capital formation enhances productivity and production, as skilled and knowledgeable workers utilize resources more efficiently. It not only improves human resource productivity but also fosters innovation and the ability to adapt to new technologies. Education equips individuals with the knowledge to understand societal changes and scientific advancements, promoting inventions and innovations. Additionally, an educated labor

force is better able to adopt and integrate new technologies, driving further progress.

- 117.** Investment in human capital not only enhances individual capabilities but also uplifts communities and economies. Its impact extends beyond personal gains to societal progress. Human capital creates both private and social benefits. Explain.

Ans :

COMP 2021

Human capital benefits both the individual and society. An educated person can actively engage in the democratic process and contribute to the nation's socio-economic development. Education not only improves an individual's earning potential but also elevates their social status, helping them understand societal changes and adapt to new technologies. Similarly, a healthy person plays a key role in preventing the spread of contagious diseases by maintaining hygiene and sanitation. Thus, human capital generates both private and social benefits.

- 118.** "The causality between human capital and economic growth flows in either direction". Explain the statement.

Ans :

DELHI 2022

Establishing a direct cause-and-effect relationship between human capital growth and economic growth is challenging, as both likely reinforce each other. Human capital formation boosts economic growth by enhancing the efficiency and productivity of the workforce. Conversely, economic growth also influences human capital formation. Growth leads to higher real per capita income, which allows for increased investment in education and skill development. Thus, it can be said that human capital growth drives economic growth and economic growth, in turn, fosters human capital formation.

- 119.** The concept of physical capital is the base for conceptualizing human capital. Do you agree? Justify your answer.

Ans :

FOREIGN 2010

Economic growth can only be achieved through the efficient use of scarce resources, both physical and human. Physical capital, which includes resources like plant, machinery and equipment, is crucial for economic growth. Just as physical resources such as land can be transformed into physical capital like factories, human resources such as students can be developed into human

4. The Mid-Day Meal Scheme increases enrollment, retention and attendance in schools while improving nutritional levels among children.

145. Read the para given below and answer the questions that follow:

Human capital is a vital resource that plays a pivotal role in economic growth and social development. Investments in education, health and skill development enhance individual productivity and societal well-being. Programs like Sarva Shiksha Abhiyan (SSA) and Digital India have contributed significantly to education accessibility. However, challenges like inadequate resources, brain drain and regional disparities in access to education persist. The Mid-Day Meal Scheme and Right to Education Act aim to ensure equitable opportunities for children to receive quality education.

1. Why is human capital considered essential for economic growth?
2. What is the role of the Digital India campaign in improving human capital?
3. Mention any two challenges faced by India in improving human capital.
4. How does the Right to Education Act contribute to human capital formation?

Ans :

1. Human capital enhances productivity, innovation and the efficient use of resources, directly contributing to economic growth and higher living standards.
2. The Digital India campaign improves accessibility to education and skill development through digital connectivity, especially in rural and remote areas.
3. Two challenges are inadequate expenditure on education and brain drain, where skilled individuals migrate for better opportunities abroad.
4. The Right to Education Act ensures free and compulsory education for children aged 6–14, laying the foundation for human capital development.

146. Read the para given below and answer the questions that follow:

Human capital formation is essential for economic and social development. Investments in education, health and training improve the productivity and skills of individuals, enhancing their contribution to the economy. However, India faces challenges

like inadequate resources, brain drain and regional disparities in education and healthcare access. Initiatives like the Sarva Shiksha Abhiyan (SSA), Right to Education Act (RTE) and the Mid-Day Meal Scheme aim to address these issues and ensure equitable opportunities for all.

1. Why is investment in education considered an important source of human capital formation?
2. How does brain drain affect human capital formation in India?
3. Mention two initiatives by the Indian government to improve education accessibility.
4. What role does health expenditure play in human capital formation?

Ans :

1. Investment in education enhances knowledge, skills and employability, increasing the productivity and economic value of individuals.
2. Brain drain leads to the loss of skilled and educated individuals, reducing the availability of human resources for national development.
3. Two initiatives are the Sarva Shiksha Abhiyan (SSA) and the Right to Education Act (RTE).
4. Health expenditure ensures a healthy workforce, enabling individuals to work efficiently and contribute effectively to economic growth.

147. Read the para given below and answer the questions that follow:

Education and health are crucial components of human capital formation, contributing significantly to economic growth and individual well-being. Investments in these areas enhance productivity, employability and innovation. Initiatives like the Right to Education Act (RTE), Sarva Shiksha Abhiyan (SSA) and health expenditure programs aim to improve access and quality in education and healthcare. Despite progress, challenges such as regional disparities, inadequate funding and brain drain remain key hurdles in achieving equitable development.

1. How do investments in education and health contribute to human capital formation?
2. List any two challenges faced by India in human capital formation.
3. Name two government initiatives aimed at improving education in India.
4. Why is health expenditure considered a significant source of human capital formation?

Ans :

1. Investments in education and health improve knowledge, skills and physical well-being, enabling individuals to contribute more effectively to economic and social development.
2. Two challenges are regional disparities in education and inadequate public expenditure on health and education.
3. Two government initiatives are the Right to Education Act (RTE) and Sarva Shiksha Abhiyan (SSA).
4. Health expenditure ensures a healthy and efficient workforce, enabling individuals to participate actively in productive activities and economic growth.

148. Read the para given below and answer the questions that follow:

Human capital is the stock of competencies, knowledge, social and personality attributes embodied in the ability to perform labour so as to produce economic value. It is the attributes gained by a worker through education and experience. Human capital formation is the process of adding to the stock of human capital over time. It is possible through creation of a skilled, trained and efficient labour force by providing better education, care facilities, etc.

There is a technological shift to knowledge-based, brainpower industries. Smart countries are those who attempt to make themselves attractive to the brainpower industry by educating their people and creating the required brain power through education and training. In the knowledge economy, the value of intangible assets is increasing and that of tangible assets decreasing. In order to have a cutting edge in this scenario, a proper organisational climate with the right people competencies is critical. Modern physical technology, which is becoming more and more complex, requires the backing of advanced social technology. Social technology covers all advances in skills acquired by people individually and collectively. Poverty is also both a cause and consequence of deficiencies in human development. Increased public spending on aspects of human development is more likely to have greater impact on poverty reduction and, at the same time, in improving human development. In short, human resource development is an important condition for improving productivity, which holds the key to economic development.

1. From the following, identify the challenges being faced in the educational sector in India:
 - (a) insufficient government expenditure.
 - (b) lack of vocational training.
 - (c) imbalance in regional growth.
 - (d) both (a) and (b).
2. The availability of healthy labour force facilitates adoption of new technologies. (True/False)
3. Following is not a source of human capital formation:
 - (a) expenditure on acquiring information about the labour market.
 - (b) expenditure on health.
 - (c) expenditure on migration
 - (d) expenditure on giving on the job training
4. Public expenditure on education can be expressed in the following ways:
 - (a) as a percentage of total government expenditure.
 - (b) as a percentage of gross domestic product.
 - (c) both (a) and (b)
 - (d) neither (a) nor (b)

Ans :

1. (d) both (a) and (b)
2. False
3. (a) expenditure on acquiring information about the labour market.
4. (c) both (a) and (b)

149. Read the para given below and answer the questions that follow:

Beyond the richness of the economies in which the people are living, human development is a concept about the thriving of human life. Human development is an approach focusing on the people themselves and the opportunities they have. Human development is about providing more freedom and opportunity to the people for living their lives as they wish. For this, people should be able to improve and use their capabilities.

Human development is a multidimensional concept. The key dimensions are a long and healthy life, being knowledgeable and having a decent standard of living. When these key dimensions are provided at first, the progress and improvement opportunities in other areas of human life will also grow.

Mainly, human development means having more alternatives and more opportunities and this must be the key reference in human development.

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Nobody can guarantee the happiness of the human beings and the choices which people would make in their lives concern only themselves. However, human development aims to provide the necessary conditions to all the people individually or collectively for improving their potential and spending a productive and creative life.

- Which of the following is not true about human capital?
 - human capital depreciates just like physical capital.
 - it is heterogeneous in nature.
 - it is inseparable from its owner.
 - it is mobile between countries.
- Trade between more than two countries is known as:
 - bilateral trade
 - multilateral trade
 - foreign trade
 - both (a) and (b)
- From the statements given in Column I and II, identify the correct pair of statements:

	Column I		Column II
1.	ICMR	A.	published a report on Global Growth Centre.
2.	IGNOU	B.	regulate Institutions under the health sector.
3.	AICTE	C.	regulate Institutions under the education sector.
4.	Deutsche Bank	D.	provides educational opportunities for unemployed working people etc.

- 1-A
 - 2-B
 - 3-C
 - 4-D
- Sarva Shiksha Abhiyan was launched in _____.
 - 2005
 - 2001
 - 2009
 - 1998

Ans :

- (a) human capital depreciates just like physical capital.
- (b) multilateral trade
- (d) 4-D
- (b) 2001

150. Read the para given below and answer the questions that follow:

Capital alludes to the company's wealth in the form of money or assets, that can be utilized for commencing a business or investing in a running business, to generate more money. It can be of two types: physical capital or human capital.

The physical capital implies the capital which is tangible in nature, such as money, plant and machinery, furniture and fixture, building etc. In Economics, the term 'physical capital' is used to denote the inputs (factor of production) or man-made goods, which are owned by the company such as computers, machinery, equipment, tools and so forth. It is used in the production process to enable conversion of raw material into finished goods.

On the contrary, human capital is relatively a new concept, which implies the collection of an individual's skills, abilities, talent, knowledge, etc. used by the company to meet its long term goals. It is not owned by the company, but by the employees, which they rent to companies for adequate consideration.

When one wants to start a company, a huge amount of physical capital is invested in the initial stage. For this, the entrepreneur finds out the expected returns from the range of investments and then the one generating relatively higher return is chosen. Therefore, the ownership of physical capital is a result of a planned and conscious decision of the entrepreneur.

Human Capital connotes the experience which an employee takes to the organisation in the form of knowledge, skills, abilities, talents, intelligence, values etc. which he/she has accrued over time. As a result, the employees are perceived as an asset, whose value can be increased, by investing in their training and development, like any other asset of the company.

The concept makes it clear that all the employees at work are not equal and they differ in their proficiencies.

Simply put, it portrays the aggregate value of the firm's intellectual capital, which is a sustained source of creativity and innovation. It is a standard used to ascertain the economic value of an employee's skill set.

Human capital is not owned by the company rather rented from employees and so there remains an uncertainty of being lost, when the employee leaves the organisation.

1. _____ five year plan recognised the importance of human capital.
(a) Seventh
(b) Third
(c) Eight
(d) Sixth
2. Which of the following is an indicator of educational achievement in a country?
(a) youth literacy rate
(b) primary completion rate
(c) adult literacy rate
(d) all of the above
3. In the year _____, the Indian government made education free and compulsory for all children between 6-14 years.
(a) 2001
(b) 2009
(c) 2003
(d) 2007
4. Following is an example of preventive medicine:
(a) medical intervention during illness
(b) vaccination
(c) medical education
(d) spread of health literacy

Ans :

1. (a) Seventh
2. (d) all of the above
3. (b) 2009
4. (b) vaccination

CHAPTER 10

RURAL DEVELOPMENT

SUMMARY

1. RURAL DEVELOPMENT

Rural development refers to the overall development of the village economy. It can be defined as 'a process whereby the standard of living of rural people especially of the rural poor rises continuously'. Rural development, thus, is defined as improving the living standards of the low income people living in rural areas and making the process of their development self-sustaining. Two notable aspects regarding the concept of rural development are:

- (i) The concept of rural development is much broader than the concept of agricultural development.
- (ii) The development of agricultural sector needs special attention as agriculture is the main source of livelihood of rural people.

1.1 Key Issues in Rural Development

Rural development is a multifaceted process aimed at improving the quality of life and economic well-being of people living in rural areas. It requires a holistic approach that addresses both social and economic challenges faced by rural communities. To achieve this, specific focus areas must be addressed to ensure sustainable and inclusive growth.

1. The quality of human resource needs to be improved.
2. The process of rural development should also involve the development of infrastructure like electricity, irrigation, rural credit, roads etc.
3. Introduction and implementation of land reforms should form an important part of the process of rural development.
4. Productive resources of localities should also be developed so as to increase employment opportunities.
5. Majority of the rural population still lives in

poverty which is why alleviation of poverty should be an important aspect of rural development.

RURAL CREDIT

Rural credit refers to credit for the farmers in rural areas. Indian farmers cannot meet their credit needs from their own sources or savings. Hence, they have to rely upon finance from outside sources. The government should ensure an effective rural credit delivery system so that timely access to credit is made possible in order to enhance agricultural productivity.

2.1 Types of Credit

Credit is essential for farmers to sustain and expand their agricultural activities. Based on the duration and purpose, credit can be classified into the following types:

1. **Short-term credit** : Indian farmers need short-term credit, i.e., for a period up to 15 months to purchase inputs like seeds, fertilizers, for payment of wages, etc.
2. **Medium-term credit** : This includes credit requirements for the purchase of animals, plough, pumpsets, etc. It ranges for a time period between 15 months to 5 years.
3. **Long-term credit** : Long-term credit ranges from 5 years to 15 years and is used for expenditures on the purchase of additional land, expensive machinery, etc.

2.2 Credit Classification on The Basis of Purpose

Credit can be classified based on its utilization, reflecting its role in agricultural productivity and rural needs:

1. **Productive credit** : When farmers require loans for purchasing seeds, fertilizers, agricultural implements etc. for improving the productivity of their cultivable land, it is called productive credit.
2. **Unproductive credit** : When rural people require credit for fulfilling their consumption

of farmers. Its significance can be highlighted as follows:

1. **Increase in Farmers' Income :** By shifting resources from low-value to high-value products, agricultural diversification leads to a substantial increase in farmers' income.
2. **Meeting Growing Demand :** Diversification helps meet the rising demand for non-food grain products such as fruits, milk, fish and eggs, aligning with changing consumption patterns.
3. **Alternative Employment for Small Farmers :** It provides small and marginal farmers with alternative sources of employment, reducing dependency on traditional crop farming.
4. **Stability in Farm Income :** Diversification reduces the risks associated with fluctuations in production and market prices, ensuring more stable farm income.
5. **Resilience to Adverse Weather :** In case of unfavorable weather conditions, farmers can sustain their livelihood by engaging in allied activities such as livestock and poultry farming.
6. **Seasonal Employment Opportunity :** As agriculture is seasonal, diversification offers rural people alternative employment opportunities during non-cropping seasons, reducing underemployment.

4.2 Diversification of Productive Activities

Diversification of productive activities is essential for creating alternative income sources and reducing dependence on traditional farming. The following are the key sectors involved:

1. **Livestock :** Cattle and goats are important components of this sector. Livestock production provides increased stability in income, food security, transport, fuel and nutrition for the family. A significant number of women and landless labourers also find employment in the livestock sector.
2. **Fisheries :** Fisheries sector in India has been recognised as an important income and employment generator. This is an important source of livelihood for a large section of the economically backward population of the country particularly in the coastal areas. Kerala, Gujarat, Maharashtra and Tamil Nadu are the major producers of marine products.
3. **Horticulture :** The horticulture sector is now a days recognised as an important sector for

crop diversification and value addition in agriculture. India accounts for 10% of the world production of fruit crops like mangoes, bananas, coconut etc.

4. **Information technology :** Information technology plays a vital role in achieving sustainable development and food security. By using appropriate information and software tools, government can predict the areas of food insecurity and then steps can be taken accordingly to prevent the likelihood of an emergency.
5. **Cottage and household industry :** This sector includes activities like spinning, weaving, bleaching, beekeeping etc. It also includes traditional home based industries like pottery, crafts, handlooms etc.

5. SUSTAINABLE DEVELOPMENT AND ORGANIC FARMING

For sustainable development of the economy, we need to use eco-friendly technology which will help us to enjoy the benefits of economic development for a long time along with no harm to the environment so that future generations can also fulfill their needs. One such eco-friendly technology is organic farming.

5.1 Benefits of Organic Farming

Organic farming offers numerous advantages, benefiting both farmers and the environment:

1. **Higher Income from Exports :** Organically grown crops are in high demand globally, enabling farmers to earn more through exports.
2. **Healthier and Nutritional Food :** Organically grown food is free from harmful chemicals and has higher nutritional value, promoting better health for consumers.
3. **Environmental Sustainability :** Being pesticide-free, organic farming reduces soil and water pollution, thereby sustaining the environment and biodiversity.
4. **Increased Employment Opportunities :** As a labor-intensive practice, organic farming generates more employment opportunities, especially in rural areas.

5.2 Limitations of Organic Farming

Despite its benefits, organic farming faces several challenges that limit its widespread adoption:

1. **Lack of Awareness :** A significant number of farmers are unaware of organic farming

grading, storing, transporting and distribution of agricultural commodities across the country.

3.1 Defects of Agricultural Marketing

Agricultural marketing in India faces several issues that prevent farmers from obtaining fair prices for their produce. These include:

1. Due to lack of proper storage facilities, the farmers find it difficult to wait for better prices for their produce and are forced to sell early even at low prices.
2. In the absence of proper road transportation in rural areas, farmers cannot reach the nearby mandis to sell their produce at a fair price.
3. The large number of intermediaries existing between the cultivator and the consumer claim a good amount of margin and, thus reduce the returns of the cultivators.
4. The farmers do not ordinarily get information about the market prices prevailing in the markets.
5. Indian farmers do not separate the qualitatively good crop from the bad crop and therefore fail to get a good price for their produce.
6. In the absence of adequate institutional finance, Indian farmers have to approach the traders and money lenders for loans and in the process get exploited.
7. The farmers are not organized and hence cannot bargain for better prices for their products.

3.2 Government Measures for Improving Agricultural Marketing

The government has implemented several measures to enhance agricultural marketing and ensure better returns for farmers. These include:

1. Setting up of regulated markets to protect the farmers from malpractices in mandis where information is given to farmers regarding prices of products. The weights and measures used in these markets are standardized and controlled by the government.
2. The government has encouraged organisation of cooperative agricultural marketing societies. Apart from helping the farmers in marketing their products, cooperative societies also distribute fertilizers, seeds, equipments etc. among them.
3. To prevent forced sale by the farmers after the harvesting of crops, the central and state warehousing corporations are offering storage

facilities to the farmers.

4. AGMARK stamp of the department of agricultural marketing is marked on the graded goods. It is a short-form for agricultural marketing.
5. Government has also undertaken various steps to inform the farmers about the market conditions which helps them in taking various decisions regarding sale of their products.
6. Another measure is the policy of minimum support price and maintenance of buffer stock. Government agencies like Food Corporation of India purchase agricultural commodities from the farmers at minimum support prices.
7. The government has also initiated the provision of infrastructural facilities like roads, railways, warehouses, cold storages and processing units.

3.3 Some New Marketing Channels

Farmers have begun to sell their produce directly to the consumers so as to minimise the share of intermediaries in the price paid by the consumers. Apni Mandi (in Punjab, Haryana and Rajasthan), Hadaspur Mandi (in Pune), Rythu Bazars (vegetable and fruit market in Andhra Pradesh) are examples of such marketing channels. Further, some national and multinational fast food chains are increasingly entering into contracts with the farmers in a big way.

4. DIVERSIFICATION OF AGRICULTURE

Diversification of agriculture is a strategy aimed at reducing dependency on traditional farming practices by expanding into other areas of production and activities. It has two main aspects:

1. **Diversification of Crops :** This involves producing a variety of crops instead of focusing on a single specialized crop. It helps in reducing risks associated with crop failure and enhances income through varied agricultural produce.
2. **Diversification of Productive Activities :** This refers to shifting the workforce from purely farm-based activities to non-farm activities such as livestock rearing, poultry farming, fisheries and other allied sectors. It helps in providing alternative income sources and reduces the pressure on land..

4.1 Significance of Agricultural Diversification

Agricultural diversification plays a crucial role in improving the economic and social well-being

needs and meeting social obligations which do not enhance agricultural productivity, it is called unproductive credit.

2.3 Sources of Rural Credit in India

Rural credit is vital for the agricultural and economic development of rural areas. The sources of credit for rural people can be broadly categorized into the following:

1. **Non-Institutional Sources :** Non-institutional sources of credit to rural people are sources other than banks, government etc. Landlords, village traders and money lenders are the three important sources of non-institutional credit.
2. **Institutional Sources :** Funds can also be made available to the rural people by various institutions such as cooperatives, commercial banks and regional rural banks.
 - (i) **Cooperative Banks :** The agricultural cooperative banks are established on cooperative basis. There are two separate cooperative institutions which provide agricultural finance –
 - (a) Cooperative Banks which provide short-term and medium-term loans and
 - (b) Land Development Banks which provide long-term loans to the farmers.
 - (ii) **Commercial Banks :** Commercial banks provide loans both directly to the farmers and indirectly to other agencies such as cooperative societies who finance farmers.
 - (iii) **Regional Rural Banks (RRBs) :** With a view to supplement the efforts of commercial banks and cooperative banks in providing rural credit, regional rural banks were set up. Their main objective is to meet the credit needs of the weaker section of rural population.
 - (iv) **National Bank for Agriculture and Rural Development (NABARD) :** The National Bank for Agriculture and Rural Development was set up as an apex bank to coordinate the activities of all institutions providing rural credit. NABARD provides refinancing facility to state cooperative banks, commercial banks and regional rural banks which in turn provide credit to the farmers.

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2.4 Problems of Rural Credit

Despite the availability of credit sources, rural credit systems in India face several challenges that hinder their effectiveness. These issues include:

1. The volume of rural credit in the country is still insufficient as compared to its growing requirement.
2. Rural credit agencies have failed to meet the needs of small and marginal farmers.
3. Guarantee or security is always demanded though they are told initially that it will not be asked for.
4. Due to slow recovery of agricultural loans, the default rate is very high.
5. The various institutions that provide credit to farmers are not well coordinated.
6. The procedure of getting an agricultural loan involves huge amount of paper work.

2.5 Suggestions for Improving Rural Credit in India

To overcome the challenges in the rural credit system and make it more effective, the following measures can be implemented:

1. **Expansion of Institutional Credit Facilities :** Enhancing the reach of institutional credit to cover all rural areas, including remote and underserved regions, is essential.
2. **Ensuring Agricultural Credit on Easy Terms and Less Paperwork :** Simplifying the process of obtaining loans by reducing paperwork and providing credit on favorable terms can encourage more farmers to access institutional credit.
3. **Coordination Among Financial Institutions :** Improved collaboration among cooperative banks, commercial banks, RRBs and NABARD can ensure streamlined credit delivery, even in remote areas.
4. **Timely and Adequate Availability of Credit :** Ensuring that credit is available to farmers at the right time and in sufficient amounts can help them meet their agricultural needs effectively.
5. **Effective Supervision on Actual Usage :** Regular monitoring of the credit utilization can ensure that the funds are used for their intended purposes, reducing the chances of misuse or diversion.

3. AGRICULTURAL MARKETING

Agricultural marketing refers to the entire system which helps the farmers in disposing their surplus produce. It includes operations like procurement,

techniques and their benefits, limiting its implementation.

2. **Inadequate Infrastructure and Marketing Facilities** : The absence of proper infrastructure and marketing systems makes it difficult for farmers to sell their organic produce effectively.
3. **Lower Yields** : Compared to modern agricultural practices, organic farming often results in lower yields, which can affect the income of farmers.
4. **Shorter Shelf Life and Appearance Issues** : Organic produce tends to have more blemishes and a shorter shelf life compared to chemically treated crops, making it less appealing in the market.

MULTIPLE CHOICE QUESTION

1. According to the passage, what is the primary purpose of introducing regulated markets for agricultural products?
 - (a) To ensure fair prices for farmers by reducing malpractices
 - (b) To promote organic farming practices among rural farmers
 - (c) To provide subsidies for fertilizers and seeds
 - (d) To eliminate the need for intermediaries

Ans : OD 2024

- (a) To ensure fair prices for farmers by reducing malpractices

The passage mentions that regulated markets help protect farmers from malpractices and ensure fair prices for their produce.

2. Which of the following was NOT the benefit accruing from 'Golden Revolution'?
 - (a) Increase in the income of the farmers.
 - (b) Increase in production of milk and related products.
 - (c) Increase in production and exports of fruits and vegetables.
 - (d) Employment for women in rural areas.

Ans : FOREIGN 2024

- (b) Increase in production of milk and related products.

3. _____ have emerged as an important micro finance system and led to women empowerment.

(Fill up the blank with correct alternative)

- (a) NABARD
- (b) Self-Help Groups
- (c) Commercial Banks
- (d) Land Development Banks

Ans : SQP 2024

- (b) Self-Help Groups

4. What is the primary objective of rural development as mentioned in the passage?
 - (a) To focus only on agricultural development
 - (b) To improve the living standards of rural people
 - (c) To expand industrial activities in rural areas
 - (d) To reduce the rural population

Ans : OD 2010

- (b) To improve the living standards of rural people
- The passage defines rural development as improving the living standards of rural people and making their development self-sustaining.

5. Which type of credit is used by farmers to buy seeds, fertilizers and agricultural implements?
 - (a) Unproductive credit
 - (b) Medium-term credit
 - (c) Productive credit
 - (d) Long-term credit

Ans : FOREIGN 2011

- (c) Productive credit

The passage states that loans for purchasing seeds, fertilizers and implements for improving productivity are classified as productive credit.

6. What is the main goal of Sarva Shiksha Abhiyan (SSA) in rural development?
 - (a) To develop roads in rural areas
 - (b) To universalize elementary education
 - (c) To implement organic farming practices
 - (d) To improve credit delivery systems

Ans : DELHI 2018

- (b) To universalize elementary education

The passage highlights Sarva Shiksha Abhiyan as focusing on elementary education as part of rural development efforts.

7. Which financial institution coordinates rural credit systems in India?
 - (a) Regional Rural Banks (RRBs)
 - (b) Cooperative Banks
 - (c) NABARD
 - (d) Commercial Banks

Ans :

SQP 2001

(c) NABARD

NABARD coordinates rural credit institutions by providing refinancing facilities to other financial institutions, as stated in the passage.

- 8.** What does the absence of proper storage facilities result in for Indian farmers?
- (a) Increase in crop quality
 - (b) Delay in market sales
 - (c) Forced sale of produce at low prices
 - (d) Higher bargaining power for better prices

Ans :

COMP 2002

(c) Forced sale of produce at low prices

The passage mentions that a lack of storage facilities compels farmers to sell their produce early at lower prices.

- 9.** What is the purpose of diversification in agriculture as stated in the passage?
- (a) To reduce dependency on single crops
 - (b) To expand land for traditional farming
 - (c) To focus entirely on organic farming
 - (d) To decrease the use of fertilizers

Ans :

OD 2003

(a) To reduce dependency on single crops

The passage explains diversification as a strategy to reduce risks by producing multiple crops or engaging in allied activities.

- 10.** What is the main issue faced by rural credit systems regarding small farmers?
- (a) They demand security despite promises otherwise
 - (b) They provide excessive credit beyond needs
 - (c) They focus on high-income farmers only
 - (d) They have simplified paperwork processes

Ans :

FOREIGN 2004

(a) They demand security despite promises otherwise

The passage highlights the inconsistency in rural credit systems, where guarantees or securities are often demanded from small farmers.

- 11.** What is the key limitation of organic farming mentioned in the passage?
- (a) Lack of global demand for organic produce
 - (b) Lower yields compared to modern farming
 - (c) Excessive use of chemical fertilizers
 - (d) Limited employment opportunities

Ans :

DELHI 2009

(b) Lower yields compared to modern farming
The passage mentions that organic farming often results in lower yields, making it less favorable for some farmers.

- 12.** What is a primary function of cooperative agricultural marketing societies?
- (a) To increase minimum support prices
 - (b) To distribute fertilizers and seeds to farmers
 - (c) To improve transportation facilities for farmers
 - (d) To enhance organic farming practices

Ans :

SQP 2005

(b) To distribute fertilizers and seeds to farmers

Cooperative agricultural marketing societies assist farmers by distributing essential inputs like seeds and fertilizers.

- 13.** What is the significance of AGMARK as mentioned in the passage?
- (a) It ensures better transportation of goods
 - (b) It promotes organic farming techniques
 - (c) It certifies the quality of agricultural products
 - (d) It offers loans for rural development

Ans :

COMP 2006

(c) It certifies the quality of agricultural products
AGMARK is a certification mark used to indicate the grading and quality of agricultural produce, as stated in the passage.

- 14.** What is the primary objective of rural development as mentioned in the passage and how does it aim to improve the lives of rural people?
- (a) To focus only on agricultural development
 - (b) To improve the living standards of rural people
 - (c) To expand industrial activities in rural areas
 - (d) To reduce the rural population

Ans :

OD 2007

(b) To improve the living standards of rural people
The passage defines rural development as improving the living standards of rural people and making their development self-sustaining.

- 15.** Which type of credit, as described in the passage, is primarily used by farmers to buy seeds, fertilizers and agricultural implements for increasing productivity?
- (a) Unproductive credit
 - (b) Medium-term credit
 - (c) Productive credit
 - (d) Long-term credit

Ans :

FOREIGN 2015

(c) Productive credit

The passage states that loans for purchasing seeds, fertilizers and implements for improving productivity are classified as productive credit.

16. What is the main goal of Sarva Shiksha Abhiyan (SSA) in the context of rural development and how does it address the needs of rural communities?

- (a) To develop roads in rural areas
- (b) To universalize elementary education
- (c) To implement organic farming practices
- (d) To improve credit delivery systems

Ans :

DELHI 2008

(b) To universalize elementary education

The passage highlights Sarva Shiksha Abhiyan as focusing on elementary education as part of rural development efforts.

17. Which financial institution, as mentioned in the passage, is responsible for coordinating rural credit systems and providing refinancing facilities?

- (a) Regional Rural Banks (RRBs)
- (b) Cooperative Banks
- (c) NABARD
- (d) Commercial Banks

Ans :

SQP 2012

(c) NABARD

NABARD coordinates rural credit institutions by providing refinancing facilities to other financial institutions, as stated in the passage.

18. What does the absence of proper storage facilities result in for Indian farmers and how does it affect their ability to secure fair prices?

- (a) Increase in crop quality
- (b) Delay in market sales
- (c) Forced sale of produce at low prices
- (d) Higher bargaining power for better prices

Ans :

COMP 2013

(c) Forced sale of produce at low prices

The passage mentions that a lack of storage facilities compels farmers to sell their produce early at lower prices.

19. What is the purpose of diversification in agriculture, as stated in the passage and how does it help in reducing risks for farmers?

- (a) To reduce dependency on single crops
- (b) To expand land for traditional farming
- (c) To focus entirely on organic farming
- (d) To decrease the use of fertilizers

Ans :

OD 2014

(a) To reduce dependency on single crops

The passage explains diversification as a strategy to reduce risks by producing multiple crops or engaging in allied activities.

20. What is the main issue faced by rural credit systems regarding small farmers, as highlighted in the passage and how does it create barriers for them?

- (a) They demand security despite promises otherwise
- (b) They provide excessive credit beyond needs
- (c) They focus on high-income farmers only
- (d) They have simplified paperwork processes

Ans :

FOREIGN 2019

(a) They demand security despite promises otherwise

The passage highlights the inconsistency in rural credit systems, where guarantees or securities are often demanded from small farmers.

21. What is a key limitation of organic farming as described in the passage and how does it affect its widespread adoption?

- (a) Lack of global demand for organic produce
- (b) Lower yields compared to modern farming
- (c) Excessive use of chemical fertilizers
- (d) Limited employment opportunities

Ans :

DELHI 2015

(b) Lower yields compared to modern farming

The passage mentions that organic farming often results in lower yields, making it less favorable for some farmers.

22. What is a primary function of cooperative agricultural marketing societies, as mentioned in the passage and how do they assist farmers?

- (a) To increase minimum support prices
- (b) To distribute fertilizers and seeds to farmers
- (c) To improve transportation facilities for farmers
- (d) To enhance organic farming practices

Ans :

SQP 2016

(b) To distribute fertilizers and seeds to farmers

Cooperative agricultural marketing societies assist farmers by distributing essential inputs like seeds and fertilizers.

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37. Diversification in agriculture involves shifting focus from traditional farming to _____ activities like livestock and fisheries.

(a) Non-farm
(b) Seasonal
(c) Export-based
(d) Crop-based

Ans :

DELHI 2007

(a) Non-farm

The passage explains that diversification includes shifting from farming to allied non-farm activities such as livestock and fisheries.

38. Organic farming promotes _____ sustainability by reducing soil and water pollution.

(a) Industrial
(b) Environmental
(c) Economic
(d) Institutional

Ans :

SQP 2008

(b) Environmental

The passage highlights that organic farming is eco-friendly and supports environmental sustainability by being pesticide-free.

39. The government sets a _____ to ensure farmers get fair prices for their crops even when market prices fall.

(a) Minimum Support Price
(b) Maximum Retail Price
(c) Subsidy Rate
(d) Fixed Selling Price

Ans :

COMP 2009

(a) Minimum Support Price

The passage states that the Minimum Support Price policy helps farmers secure fair prices for their produce.

40. Farmers often lack information about _____ prices, which affects their ability to sell their produce at fair rates.

(a) Fixed
(b) Consumer
(c) Market
(d) Wholesale

Ans :

OD 2010

(c) Market

The passage mentions that farmers not being informed about market prices leads to them receiving lower returns for their produce.

41. Shorter shelf life and blemishes in crops are significant limitations of _____ farming.

(a) Industrial
(b) Organic
(c) Traditional
(d) Cooperative

Ans :

FOREIGN 2011

(b) Organic

The passage highlights that organic produce often has a shorter shelf life and appearance issues, which are limitations of organic farming.

42. _____ credit is used to buy expensive machinery, purchase land, or fund long-term agricultural improvements.

(a) Short-term
(b) Medium-term
(c) Long-term
(d) Seasonal

Ans :

DELHI 2012

(c) Long-term

According to the passage, long-term credit is required for large investments like purchasing land or expensive machinery.

43. Identify the institutional source of rural credit

(a) NABARD
(b) RBI
(c) World Bank
(d) SBI

Ans :

SQP 2013

(a) NABARD

44. It is the label which is put on standardized products of agriculture under the supervision of government officials.

(a) AGMARK
(b) FSSAI
(c) ISI
(d) FPO

Ans :

COMP 2014

(d) FPO

45. Following is a limitation of organic farming:

(a) Shorter shelf life of organic products
(b) No use of locally available inputs
(c) Leads to soil degradation
(d) Decreasing demand for organic food

Ans :

OD 2023

(a) Shorter shelf life of organic products

- 30.** How does the diversification of crops benefit farmers, as per the passage?
- It reduces risks associated with crop failure and market fluctuations
 - It increases the dependency on high-value crops
 - It eliminates the need for external credit sources
 - It decreases the need for storage facilities

Ans :

DELHI 2010

- It reduces risks associated with crop failure and market fluctuations

The passage explains that crop diversification helps farmers reduce risks and earn more stable incomes by growing a variety of crops.

- 31.** What is the role of organic farming in sustainable development, as described in the passage?
- It increases the use of chemical fertilizers
 - It reduces soil and water pollution by avoiding harmful pesticides
 - It focuses on achieving maximum crop yield through modern methods
 - It eliminates the need for marketing infrastructure

Ans :

SQP 2000

- It reduces soil and water pollution by avoiding harmful pesticides

The passage highlights that organic farming contributes to environmental sustainability by being free of harmful chemicals.

- 32.** How do cooperative agricultural marketing societies assist farmers, as mentioned in the passage?
- They provide free fertilizers and seeds to farmers
 - They help farmers market their produce and distribute essential inputs
 - They provide long-term loans for agricultural development
 - They ensure international trade for farmers' produce

Ans :

COMP 2004

- They help farmers market their produce and distribute essential inputs

The passage mentions that cooperative societies assist farmers in marketing their products and distributing fertilizers, seeds and equipment.

- 33.** Rural development is defined as improving the living standards of _____ people and making their development self-sustaining.

- Rural poor
- Urban
- Wealthy
- Educated

Ans :

SQP 2002

- Rural poor

The passage defines rural development as a process to improve the living standards of rural poor and make their development self-sustaining.

- 34.** _____ credit is used for purchasing seeds, fertilizers and other agricultural inputs to improve productivity.

- Long-term
- Medium-term
- Short-term
- Non-institutional

Ans :

COMP 2003

- Short-term

The passage states that short-term credit is essential for farmers to buy inputs like seeds and fertilizers to enhance agricultural productivity.

- 35.** The National Bank for Agriculture and Rural Development (NABARD) acts as a _____ bank to coordinate the activities of rural credit institutions.

- Cooperative
- Apex
- Commercial
- Private

Ans :

OD 2005

- Apex

The passage mentions NABARD as an apex bank that coordinates and supports rural credit institutions.

- 36.** The absence of proper _____ facilities forces farmers to sell their produce early at low prices.

- Storage
- Transportation
- Grading
- Marketing

Ans :

FOREIGN 2006

- Storage

According to the passage, the lack of proper storage facilities compels farmers to sell their crops early, even at lower prices.

81. Which combination of statements about agricultural diversification is correct?

1. Diversification reduces dependency on traditional farming.
2. It includes both crop diversification and non-farm activities.
3. Livestock and fisheries are examples of diversified activities.

Diversification eliminates the need for rural credit.

- (a) Only 1, 2 and 3 are correct
- (b) Only 1 and 4 are correct
- (c) Only 2 and 4 are correct
- (d) All statements are correct

Ans :

SQP 2003

- (a) Only 1, 2 and 3 are correct

The passage mentions that diversification reduces dependency on farming and includes livestock, fisheries and crop diversification. It does not eliminate the need for rural credit, making statement 4 incorrect.

82. Identify the correct combination of statements about rural credit:

1. Cooperative banks provide both short-term and medium-term loans to farmers.
2. Land Development Banks are part of the cooperative credit system.
3. Regional Rural Banks (RRBs) provide loans to all rural populations.
4. Rural credit agencies often fail to meet the needs of small and marginal farmers.

- (a) Only 2, 3 and 4 are correct
- (b) Only 1, 2 and 4 are correct
- (c) Only 1 and 3 are correct
- (d) All statements are correct

Ans :

DELHI 2006

- (b) Only 1, 2 and 4 are correct

The passage mentions that RRBs focus on weaker sections of the rural population, not all rural people, making statement 3 incorrect. The rest of the statements are correct.

83. Identify the correct combination of statements about organic farming:

1. Organic farming reduces soil and water pollution.
2. It often results in higher yields than modern farming.
3. Organically grown crops have higher export demand.
4. Organic farming generates more employment opportunities.

- (a) Only 2, 3 and 4 are correct
- (b) Only 1 and 2 are correct
- (c) Only 1, 3 and 4 are correct
- (d) All statements are correct

Ans :

COMP 2004

- (c) Only 1, 3 and 4 are correct

The passage highlights the environmental benefits, export demand and employment potential of organic farming. However, it mentions that organic farming often results in lower yields, making statement 2 incorrect.

84. Which combination of statements about diversification in agriculture is correct?

1. Crop diversification reduces the risks associated with market fluctuations.
2. Non-farm activities like livestock and fisheries help farmers earn alternative incomes.
3. Diversification is only suitable for large farmers with sufficient resources.
4. It ensures seasonal employment opportunities for rural workers.

- (a) Only 1, 2 and 4 are correct
- (b) Only 1 and 3 are correct
- (c) Only 2, 3 and 4 are correct
- (d) All statements are correct

Ans :

OD 2008

- (a) Only 1, 2 and 4 are correct

The passage explains that diversification reduces risks, provides alternative income sources and offers seasonal employment. It is not limited to large farmers, making statement 3 incorrect.

85. Which combination of statements about agricultural marketing is correct?

1. Farmers lack reliable information about prevailing market prices.
2. The absence of proper grading practices reduces the quality of marketed crops.
3. Government policies like minimum support prices help stabilize farmers' incomes.
4. Agricultural marketing is free from intermediary exploitation.

- (a) Only 1, 2 and 3 are correct
- (b) Only 1, 2 and 4 are correct
- (c) Only 2, 3 and 4 are correct
- (d) All statements are correct

Ans :

SQP 2010

- (a) Only 1, 2 and 3 are correct

The passage mentions that intermediaries exploit farmers, making statement 4 incorrect. The other

46. Operation Flood was implemented in

- (a) 1985
- (b) 1966
- (c) 1951
- (d) 1995

Ans :

OD 2015

- (b) 1966

47. What was the growth rate of agricultural output during 2007-12?

- (a) 32% per annum
- (b) 6% per annum
- (c) 1.5% per annum
- (d) 5% per annum

Ans :

FOREIGN 2016

- (a) 32% per annum

48. Which of the following is an institutional source of rural credit?

- (a) Moneylenders
- (b) Regional Rural Banks
- (c) Traders
- (d) Landlords

Ans :

DELHI 2017

- (b) Regional Rural Banks

49. What is the name of the vegetable and fruit market in Andhra Pradesh?

- (a) Apni Mandi
- (b) Hadaspar Mandi
- (c) Rythu Bazars
- (d) Uzhavar Sandies

Ans :

COMP 2019

- (c) Rythu Bazars

50. Which status has been accorded to the retail chains and supermarkets for selling organic food?

- (a) Eco Status
- (b) Sustainable Status
- (c) Nutritional Status
- (d) Green Status

Ans :

OD 2020

- (d) Green Status

51. Which among the following is an initiative taken for the development of rural India?

- (a) Human Capital Formation
- (b) Land Reforms
- (c) Poverty Alleviation
- (d) All of these

Ans :

FOREIGN 2021

- (d) All of these

52. Which approach was adopted by India in 1969 to meet the need of rural credit?

- (a) social banking
- (b) multi-agency
- (c) both (a) and (b)
- (d) none of these

Ans :

DELHI 2022

- (c) both (a) and (b)

53. When was the National Bank for Agricultural and Rural Development set up?

- (a) 1962
- (b) 1972
- (c) 1982
- (d) 1992

Ans :

SQP 2023

- (c) 1982

54. Which Indian state has been held as a success story in the efficient implementation of milk cooperatives?

- (a) Punjab
- (b) Gujarat
- (c) Uttar Pradesh
- (d) West Bengal

Ans :

COMP 2012

- (b) Gujarat

55. How much do the “inland sources” contribute to the total fish production in India?

- (a) 64%
- (b) 39%
- (c) 50%
- (d) 75%

Ans :

SQP 2003

- (a) 64%

56. Which among the following is a process that involves the assembling, storage, processing, transportation, packaging, grading and distribution of different agricultural commodities across the country?

- (a) Agricultural Management
- (b) Agricultural Banking
- (c) Agricultural Diversification
- (d) Agricultural Marketing

Ans :

SQP 2018

- (d) Agricultural Marketing

57. Diversification of agriculture implies:
 (a) multiple cropping
 (b) adoption of modern farming methods
 (c) shift of workforce from agriculture to other allied activities
 (d) (a) and (c)

Ans :

COMP 2022

- (d) (a) and (c)

58. _____ is a process, which includes all the activities from sowing till sale of the final produce in the market. (Fill up the blank with correct alternative)
 (a) Rural Development
 (b) Agricultural Diversification
 (c) Organic Farming
 (d) Agricultural Marketing

Ans :

OD 2023

- (d) Agricultural Marketing

59. _____ is the apex institution which plans and evaluates policies related to rural credit needs.
 (a) Cooperative Credit Societies
 (b) Regional Rural Banks
 (c) Self Help Groups
 (d) NABARD

Ans :

DELHI 2023

- (d) NABARD

60. Which one of the following is an apex body to take care of the rural financing system of the country.
 (a) RBI
 (b) NABARD
 (c) ICICI
 (d) SBI

Ans :

SQP 2019

- (b) NABARD

61. Identify, which of the following alternative indicates towards incorrect components combination of Agricultural Marketing System?
 (a) Assembling, Storage, Processing, Packaging
 (b) Production, Assembling, Processing, Grading
 (c) Assembling, Processing, Packaging, Transportation
 (d) Processing, Packaging, Grading, Distribution

Ans :

DELHI 2012

- (b) Production, Assembling, Processing, Grading

62. Which of the following states is the leading fish producer in India?
 (a) Uttar Pradesh
 (b) Kerala
 (c) Rajasthan
 (d) Andhra Pradesh

Ans :

COMP 2019

- (b) Kerala

63. The scheme of 'Micro Finance' is extended through _____ credit provision. (Fill up the blank with correct alternative.)
 (a) Self help groups
 (b) Land Development Banks
 (c) Regional Rural Banks
 (d) Commercial Banks

Ans :

FOREIGN 2018

- (a) Self help groups

64. _____ farming is the system that restores, maintains and enhances the ecological balance. (Fill up the blank with correct alternative.)
 (a) Conventional
 (b) Chemical
 (c) Organic
 (d) Multi-layered

Ans :

COMP 2007

- (c) Organic

ASSERTION AND REASON

65. **Assertion :** Cooperative marketing helps the farmers get a fair price for their products.
Reason : Regulated markets protect the farmers from malpractices of sellers and brokers.
 (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
 (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
 (c) Assertion is true but Reason is false.
 (d) Assertion is false but Reason is true.

Ans :

OD 2000

- (b) Assertion and reason both are correct statements but reason is not correct explanation for assertion. Under Cooperative marketing, farmers form societies to sell their output collectively and

benefit from collective bargaining in order to obtain a better price.

- 66. Assertion :** Livestock sector provides alternate livelihood options to small and marginal farmers and landless labourers.

Reason : Diversification minimises the risk of depending exclusively on farming for livelihood.

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
- (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

FOREIGN 2001

- (a) Assertion and reason both are correct statements and reason is correct explanation for assertion.

- 67. Assertion :** Farmers were exploited by moneylenders.

Reason : Their accounts were manipulated without their knowledge.

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
- (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

SQP 2003

- (a) Assertion and reason both are correct statements and reason is correct explanation for assertion.

- 68. Assertion :** Expansion of the banking system has positively affected rural farm and non-farm income and employment.

Reason : Agricultural marketing has helped farmers dispose of their surplus produce at fair prices.

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
- (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

COMP 2004

- (b) Assertion and reason both are correct statements but reason is not correct explanation for assertion.

With the expansion of the rural banking system, farmers can now get credit at cheaper rates for their production needs.

- 69. Assertion :** Diversification of crop production involves shift from single-cropping to multi-cropping system.

Reason : Horticulture leads to disguised and seasonal unemployment.

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
- (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

DELHI 2002

- (c) Assertion is true but Reason is false.
- Diversification is essential to earn more and overcome poverty in rural areas. This diversification was done to promote a shift from subsistence farming to commercial farming.

- 70. Assertion :** Self Help Groups have emerged as a major microfinance program for the small and marginal farmers.

Reason : Members of SHGs contribute a minimum amount from which credit is given to the needy members.

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
- (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

OD 2005

- (a) Assertion and reason both are correct statements and reason is correct explanation for assertion.

- 71. Assertion :** NABARD coordinates the functioning of all financial institutions involved in the rural financing system.

Reason : Land Development Banks provide short-term credit to small and marginal farmers.

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
- (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

FOREIGN 2006

- (c) Assertion is true but Reason is false.

The main objective of NABARD is to promote the health and strength of credit Institutions namely cooperatives, commercial banks and regional rural banks.

- 72. Assertion :** Organic farming promotes sustainable development.

Reason : Organically grown food has more nutritional value.

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
- (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

DELHI 2006

- (b) Assertion and reason both are correct statements but reason is not correct explanation for assertion.

Organic farming uses on-farm resources which maintain long-term fertility of the soil.

- 73. Assertion :** IT has revolutionised many sectors in the Indian economy.

Reason : The Golden Revolution has made India a world leader in the production of meat, eggs, wool etc.

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
- (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

OD 2009

- (c) Assertion is true but Reason is false.

By using appropriate information and software tools, the government can predict the areas of

food insecurity and accordingly the appropriate steps can be taken. It also provides information regarding emerging technologies, prices, weather and soil conditions for growing different crops.

- 74. Assertion :** An efficient rural credit system is crucial for raising agricultural productivity

Reason : There is a long time gap between crop sowing and realisation of income.

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
- (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

SQP 2007

- (a) Assertion and reason both are correct statements and reason is correct explanation for assertion.

- 75. Assertion :** Organic farming improves soil fertility.

Reason : Organic farming restores, maintains and enhances the ecological balance.

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
- (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

COMP 2008

- (a) Assertion and reason both are correct statements and reason is correct explanation for assertion.

- 76. Assertion :** Minimum Support Price safeguards the interests of farmers.

Reason : The farmers can sell their grains in the open market at the Minimum Support Price.

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
- (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

FOREIGN 2010

- (c) Assertion is true but Reason is false.

Minimum Support Price ensures fair returns to the farmers and hence safeguards them from the risk of selling their output at low price in the market.

77. Assertion : Diversification of agricultural activities provides sustainable livelihood options to rural people

Reason : A significant number of women are employed in the livestock sector.

- Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
- Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
- Assertion is true but Reason is false.
- Assertion is false but Reason is true.

Ans :

DELHI 2011

(b) Assertion and reason both are correct statements but reason is not correct explanation for assertion.

Diversification of agricultural activities provides the small and marginal farmers with alternative sources of employment. It helps in shifting resources from production of low value products to production of high value products increasing the income of the farmers.

STATEMENT BASED QUESTIONS

78. Identify the correct combination of statements about rural development:

- Rural development focuses on the overall improvement of living standards in rural areas.
 - It includes the development of infrastructure like electricity, irrigation and rural credit.
 - Rural development is only concerned with agricultural growth.
 - Alleviation of poverty is a critical aspect of rural development.
- Only 2 and 3 are correct
 - Only 1 and 3 are correct
 - Only 1, 2 and 4 are correct
 - All statements are correct

Ans :

OD 2000

- Only 1, 2 and 4 are correct

The passage highlights that rural development includes infrastructure development, improved living standards and poverty alleviation. However, it is broader than just agricultural growth, which makes statement 3 incorrect.

79. Which combination of statements about rural credit is correct?

- Rural credit is vital for meeting the financial needs of farmers.
 - Cooperative banks provide long-term loans through land development banks.
 - Regional Rural Banks (RRBs) were set up to meet the credit needs of weaker sections of society.
 - NABARD directly provides loans to farmers for their agricultural needs.
- Only 1, 2 and 3 are correct
 - Only 2 and 4 are correct
 - Only 1 and 3 are correct
 - All statements are correct

Ans :

FOREIGN 2001

- Only 1, 2 and 3 are correct

The passage explains that NABARD coordinates credit activities but does not directly provide loans to farmers, making statement 4 incorrect. The other statements are correct as per the description of rural credit.

80. Identify the correct combination of statements about the defects in agricultural marketing:

- Farmers lack access to proper storage facilities for their produce.
 - The absence of reliable transportation in rural areas reduces market access for farmers.
 - Farmers are highly organized and can bargain for better prices.
 - The large number of intermediaries reduces farmers' returns.
- Only 1 and 3 are correct
 - Only 1, 2 and 4 are correct
 - Only 3 and 4 are correct
 - All statements are correct

Ans :

DELHI 2002

- Only 1, 2 and 4 are correct

The passage states that farmers face issues like lack of storage, poor transportation and exploitation by intermediaries. However, farmers are not well-organized, making statement 3 incorrect.

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23. What is the significance of AGMARK, as described in the passage and how does it help in agricultural marketing?

- (a) It ensures better transportation of goods
- (b) It promotes organic farming techniques
- (c) It certifies the quality of agricultural products
- (d) It offers loans for rural development

Ans :

COMP 2017

(c) It certifies the quality of agricultural products
AGMARK is a certification mark used to indicate the grading and quality of agricultural produce, as stated in the passage.

24. How does rural development aim to improve the standard of living of rural people, as explained in the passage?

- (a) By focusing solely on agricultural activities
- (b) By promoting industrialization in rural areas
- (c) By making their development self-sustaining
- (d) By reducing rural population growth

Ans :

OD 2019

(c) By making their development self-sustaining
The passage explains that rural development aims to raise the standard of living of rural people and make their development self-sustaining.

25. What is the key role of rural credit as highlighted in the passage and why is it important for farmers?

- (a) It helps farmers meet personal expenses
- (b) It enhances agricultural productivity by providing timely credit
- (c) It reduces the need for fertilizers
- (d) It promotes international trade

Ans :

FOREIGN 2020

(b) It enhances agricultural productivity by providing timely credit
The passage emphasizes that rural credit enables farmers to access necessary funds to sustain and expand agricultural activities.

26. What is the significance of NABARD in the rural credit system, as described in the passage?

- (a) It acts as an apex bank coordinating all rural credit institutions
- (b) It directly provides loans to farmers
- (c) It funds only cooperative banks for agricultural purposes
- (d) It provides grants for social development

Ans :

DELHI 2021

(a) It acts as an apex bank coordinating all rural credit institutions

The passage mentions that NABARD is responsible for coordinating the activities of various institutions providing rural credit.

27. How does agricultural diversification, as stated in the passage, help farmers reduce risks and improve their income?

- (a) By focusing only on high-value crops
- (b) By expanding to non-farm activities like livestock and fisheries
- (c) By reducing their reliance on fertilizers
- (d) By increasing the area of cultivation for one crop

Ans :

SQP 2022

(b) By expanding to non-farm activities like livestock and fisheries

The passage highlights that diversification involves shifting to non-farm activities, reducing risks and enhancing farmers' income.

28. What is one of the key challenges faced by farmers in the agricultural marketing system, as discussed in the passage?

- (a) Access to surplus storage facilities
- (b) Overproduction of crops leading to lower prices
- (c) Increased transportation costs to export crops
- (d) Exploitation by intermediaries

Ans :

COMP 2023

(d) Exploitation by intermediaries

The passage states that intermediaries claim a significant margin in agricultural marketing, reducing farmers' returns.

29. What is one of the major issues with rural credit agencies in India, as highlighted in the passage?

- (a) They provide excessive credit to farmers
- (b) They fail to meet the needs of small and marginal farmers
- (c) They focus exclusively on urban areas
- (d) They offer loans without requiring any paperwork

Ans :

FOREIGN 2001

(b) They fail to meet the needs of small and marginal farmers

The passage emphasizes that rural credit agencies are often unable to cater to small and marginal farmers' credit requirements.

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statements are accurate regarding the defects and measures in agricultural marketing.

86. Identify the correct combination of statements about the defects in agricultural marketing:

1. Lack of proper transportation prevents farmers from accessing markets.
2. Farmers are often forced to sell their produce early due to inadequate storage facilities.
3. Intermediaries claim a significant share of farmers' profits.
4. Farmers are highly organized and have strong bargaining power.

- (a) Only 1, 3 and 4 are correct
 (b) Only 2 and 4 are correct
 (c) Only 1, 2 and 3 are correct
 (d) All statements are correct

Ans :

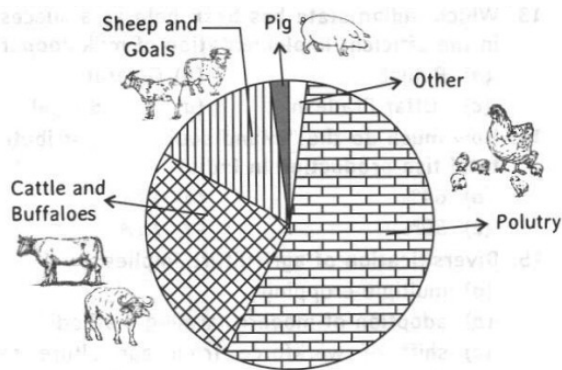
COMP 2015

(c) Only 1, 2 and 3 are correct

The passage mentions lack of transportation, inadequate storage and intermediary exploitation as key defects in agricultural marketing. Farmers are not well-organized, making statement 4 incorrect.

GRAPH BASED QUESTIONS

87. Study the following picture:



Identify the kind of activities, which may be envisaged under _____ as diversification activity. (Fill up the blank with correct alternative.)

Alternatives

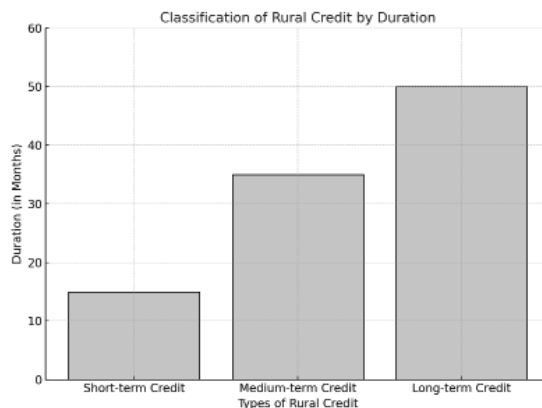
- (a) Animal Husbandry
 (b) Fisheries
 (c) Horticulture
 (d) Organic farming

Ans :

COMP 2024

(a) Animal Husbandry

88. Based on the bar graph, which type of rural credit has the longest duration?



- (a) Short-term Credit
 (b) Medium-term Credit
 (c) Long-term Credit
 (d) All have equal duration

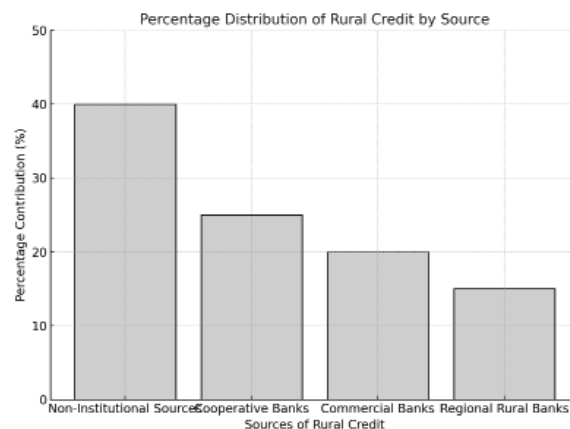
Ans :

OD 2011

(c) Longterm credit

The bar graph shows that Long-term Credit has the longest duration, ranging up to 50 months, while Medium-term Credit lasts up to 35 months and Short-term Credit up to 15 months. This classification reflects the different needs of farmers based on their agricultural requirements.

89. Based on the bar graph, which source provides the highest percentage of rural credit?



- (a) Non-Institutional Sources
 (b) Cooperative Banks
 (c) Commercial Banks
 (d) Regional Rural Banks

The passage mentions that regulated markets are set up to reduce malpractices, ensure standardized measures and help farmers get fair prices for their produce.

- 98.** Diversification in agriculture involves producing a variety of crops and engaging in non-farm activities like livestock rearing and fisheries. It reduces risks from market fluctuations and crop failures while providing alternative sources of income. Diversification also ensures seasonal employment for small farmers and rural workers. What is a significant benefit of agricultural diversification?

- (a) It reduces the need for rural credit
- (b) It focuses on traditional farming methods
- (c) It reduces risks and provides alternative income sources
- (d) It eliminates the need for agricultural marketing

Ans :

SQP 2004

- (c) It reduces risks and provides alternative income sources

The passage highlights that diversification reduces dependency on a single crop, minimizes risks and offers alternative employment and income opportunities.

ONE MARK QUESTIONS

- 99.** What do you mean by rural development?

Ans :

OD 2000

Rural development involves efforts to improve areas that are underdeveloped in the overall village economy of the country.

- 100.** What is micro credit?

Ans :

FOREIGN 2001

Micro credit refers to small loans provided to impoverished individuals.

- 101.** What is the function of NABARD ?

Ans :

DELHI 2002

Its function is to coordinate the activities of all institutions that provide rural credit.

- 102.** What is Cooperative marketing?

Ans :

SQP 2003

Cooperative marketing refers to a system where farmers form marketing societies to collectively sell their produce and benefit from collective bargaining.

- 103.** What are regulated markets?

Ans :

COMP 2004

Regulated markets are markets established by the government where farmers sell their products directly, without the involvement of middlemen.

- 104.** What is minimum support price?

Ans :

OD 2005

It is the minimum price at which the government agrees to purchase food grains from farmers.

- 105.** What is buffer stock?

Ans :

FOREIGN 2006

It refers to the stock of grains maintained by the government to stabilize prices and to be used in emergencies, as well as for distribution through fair price shops under the public distribution system.

- 106.** What is AGMARK?

Ans :

DELHI 2007

It is a label placed on standardized agricultural products under government supervision and is a short form of Agricultural Marketing.

- 107.** What is subsistence farming?

Ans :

SQP 2008

It is farming done to produce crops meant for self-consumption by the farming families.

- 108.** What is the golden revolution?

Ans :

COMP 2009

It is the period between 1991 and 2003, when planned investment in horticulture became highly productive and the sector emerged as a sustainable livelihood option.

- 109.** Name the states that are major producers of marine products.

Ans :

OD 2010

Kerala, Gujarat, Maharashtra and Tamil Nadu are the leading producers of marine products.

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- (a) Crop Diversification
- (b) Livestock
- (c) Fisheries
- (d) Horticulture

Ans :

FOREIGN 2014

- (a) Crop Diversification

The pie chart shows that Crop Diversification accounts for 30%, the highest contribution to agricultural diversification. Livestock follows at 25%, Fisheries at 20% and Horticulture at 15%. This reflects the prominent role of crop diversification in reducing risks and increasing agricultural productivity.

PASSAGE BASED QUESTION

94. Organic farming promotes environmental sustainability by avoiding harmful chemicals and reducing soil and water pollution. It generates higher income from exports due to increasing global demand for organic produce. However, challenges like lower yields, lack of awareness and marketing difficulties hinder its widespread adoption.

What is one of the key challenges faced by organic farming?

- (a) High market demand
- (b) Excessive use of fertilizers
- (c) Lack of awareness among farmers
- (d) High crop yields

Ans :

COMP 2024

- (c) Lack of awareness among farmers

The passage mentions that organic farming faces challenges such as lack of awareness and marketing difficulties, even though it offers environmental and financial benefits.

95. Rural development focuses on improving the living standards of low-income people in rural areas and making the process of their development self-sustaining. It involves enhancing the quality of human resources, developing infrastructure like electricity, irrigation and roads and implementing land reforms to create employment opportunities. Poverty alleviation also forms a key aspect of rural development. Which of the following is a major objective of rural development?

- (a) Industrialization in urban areas
- (b) Poverty alleviation and infrastructure development
- (c) Expanding exports of agricultural products
- (d) Increasing migration to urban areas

Ans :

OD 2001

- (b) Poverty alleviation and infrastructure development

The passage emphasizes that rural development aims to alleviate poverty and improve infrastructure, making it a key aspect of improving rural living standards.

96. Rural credit provides financial support to farmers who cannot meet their credit needs from their own savings. Short-term credit is required for purchasing seeds and fertilizers, while long-term credit is used for buying land or expensive machinery. Regional Rural Banks (RRBs) cater to the weaker sections and NABARD coordinates all rural credit institutions.

What is the role of NABARD in the rural credit system?

- (a) It directly provides loans to farmers
- (b) It finances only cooperative banks
- (c) It coordinates rural credit institutions
- (d) It develops farming equipment

Ans :

FOREIGN 2002

- (c) It coordinates rural credit institutions

The passage highlights that NABARD coordinates the activities of various institutions like RRBs, cooperative banks and commercial banks in the rural credit system.

97. Agricultural marketing in India faces challenges such as lack of storage facilities, poor road connectivity and exploitation by intermediaries. Farmers often do not get accurate information about market prices, which reduces their profits. Regulated markets and minimum support prices have been introduced to address these issues and ensure better returns for farmers.

What is one of the key measures to improve agricultural marketing?

- (a) Encouraging more intermediaries
- (b) Providing free transportation for farmers
- (c) Introducing regulated markets
- (d) Increasing taxes on agricultural produce

Ans :

DELHI 2003

- (c) Introducing regulated markets

to a multiple cropping system. It involves reallocating resources from the production of low-value crops to high-value ones. This increases farmers' incomes as they receive more value for the same cost of resources, which remain unchanged. Additionally, since agriculture is a seasonal occupation, crop diversification helps in stabilizing farm income by minimizing risks associated with fluctuations in production and market prices.

- (ii) **Workforce Diversification:** This refers to moving the workforce from agriculture to allied activities such as livestock, poultry and fisheries, as well as to non-agricultural sectors. This shift eases the pressure on agriculture and contributes to supplementing rural income.

FOUR MARK QUESTIONS

- 130.** "Growth of rural economy depends primarily on infusion of capital to realize higher productivity in agricultural and non-agricultural sectors." Explain the statement.

Ans :

COMP 2024

Capital is essential for any development activity and the availability of credit plays a crucial role in rural development. Since there is a long gap between crop sowing and the realization of income, farmers often need to borrow from various sources to cover initial expenses like seeds, fertilizers, equipment and family costs such as marriages or religious ceremonies. Banking institutions have supported small and marginal farmers by providing financial assistance, enabling them to engage in agriculture and related activities, which in turn has increased their average income. In some cases, poor families form Self Help Groups or cooperative societies to access institutional credit. These financial institutions also contribute to rural employment by financing various government self-employment programs through public sector banks.

- 131.** Agricultural marketing plays a vital role in connecting farmers to consumers, ensuring fair prices and efficient distribution of produce. It includes various processes like procurement, storage and transportation to support the rural economy. What do you mean by agricultural marketing? Discuss its various advantages.

Ans :

SQP 2024

Agricultural marketing refers to the entire process that assists farmers in selling their surplus produce. It encompasses various activities, including:

- Procurement:** Collecting farm produce after it is harvested,
- Processing:** Preparing the produce for further use or sale,
- Grading:** Sorting the produce according to quality,
- Packaging:** Packaging the produce based on different qualities and quantities,
- Storing:** Keeping the produce for future sale and
- Transportation:** Moving the produce to markets for sale.

A well-organized agricultural marketing system offers several benefits:

- It helps farmers secure better prices for their produce.
- It ensures a consistent supply of agricultural raw materials to agro-based industries within the country.
- It guarantees a steady availability of food grains for the population.
- It encourages farmers to adopt more productive agricultural techniques, leading to higher agricultural productivity and output.
- Surplus agricultural produce, when sold in international markets, contributes to foreign exchange earnings for the country.

- 132.** Rural development essentially focuses on areas that are lagging behind in the overall development of the village economy. In view of the given statement, identify such areas.

or

Discuss the challenges facing rural development in India.

Ans :

DELHI 2022

Economists have highlighted several critical issues related to rural development that require special focus for improving the living standards of rural populations. Some of the key areas that need attention and new strategies for rural India's progress are:

- Human resource development:** The rural development plan must address challenges like improving literacy (especially among women), skill development and healthcare.
- Land reforms:** These are necessary to enhance agricultural productivity, eliminate middlemen and prevent the exploitation of

- 110.** Which state has the most efficient implementation of milk cooperatives?

Ans :

FOREIGN 2011

Gujarat

- 111.** Define Agricultural diversification.

Ans :

DELHI 2023

Agricultural diversification refers to the reallocation of farm resources like land, capital, equipment and labor to other products, especially non-farming activities.

TWO MARK QUESTIONS

- 112.** Give two examples of alternate marketing channels.

Ans :

SQP 2012

The reference to Apni Mandi in Punjab, Haryana and Rajasthan and Hadaspur Mandi in Pune, pertains to regional market setups aimed at facilitating direct transactions between farmers and consumers. These mandis provide platforms for agricultural produce trading, ensuring farmers receive better prices by eliminating intermediaries.

- 113.** How is green revolution different from golden revolution?

Ans :

COMP 2012

The Green Revolution refers to the significant increase in the production of food grains, particularly wheat and rice, through the use of high-yielding varieties, chemical fertilizers and advanced irrigation methods. On the other hand, the Golden Revolution focuses on the rise in the production of fruits and vegetables, primarily within the horticulture sector, driven by improved cultivation techniques and better crop management.

- 114.** State the meaning of 'Agricultural Marketing.'

Ans :

OD 2020

Agricultural marketing encompasses the processes of assembling, storing, processing, transporting, packaging, grading and distributing agricultural products nationwide. To enhance this system, the government has implemented measures such as regulating markets, providing infrastructure,

promoting cooperative marketing and introducing policy tools like Minimum Support Prices (MSPs) and the Public Distribution System (PDS). These initiatives aim to improve market efficiency and support farmers.

- 115.** Distinguish between 'Green Revolution' and 'Golden Revolution'.

Ans :

COMP 2020

Difference between Green Revolution and Golden Revolution are as follows :

	Green Revolution	Golden Revolution
(i)	Green Revolution refers to the large increase in production of foodgrains due to use of HYV seeds.	The period during which there was rapid growth in the production of horticultural crops such as fruits, vegetables, flowers etc. is known as Golden revolution.
(ii)	Green Revolution made India self sufficient in the production of food grains, especially rice and wheat.	Golden Revolution made India a world leader in the production of mangoes, bananas, coconut and spices.

- 116.** What are the two notable aspects of rural development?

Ans :

OD 2013

The two notable aspects of rural development are:

- It is much broader than the concept of agricultural development, addressing overall village economy.
- Special attention is needed for the development of agriculture, as it is the primary source of livelihood for rural people.

- 117.** What are the major defects of agricultural marketing in India?

Ans :

FOREIGN 2014

The major defects include:

- Lack of proper storage facilities, forcing farmers to sell at low prices.
- Poor road transportation, preventing access to nearby mandis.
- Presence of intermediaries reduces farmers' returns.
- Farmers lack information about prevailing market prices for their produce.

118. What are the main sources of rural credit in India?

Ans :

DELHI 2015

Rural credit sources are:

- (i) Non-Institutional Sources: Landlords, moneylenders and traders.
- (ii) Institutional Sources: Cooperative banks, commercial banks, regional rural banks (RRBs) and NABARD, which provide short, medium and long-term loans to meet farmers' credit needs.

119. State two benefits and two limitations of organic farming.

Ans :

SQP 2016

Benefits:

- (i) It produces healthier food free from harmful chemicals.
- (ii) It ensures environmental sustainability by reducing pollution.

Limitations:

- (i) Organic farming yields are lower compared to modern methods.
- (ii) It has shorter shelf life and appearance issues, making it less marketable.

120. What is diversification of agriculture and why is it important?

Ans :

COMP 2017

Diversification of agriculture involves:

- (i) Crop diversification: Growing various crops to reduce risks.
- (ii) Productive activities: Shifting to livestock, fisheries and horticulture.

It is important to reduce dependence on traditional farming, provide alternative incomes and ensure stability against market and weather-related risks.

use of email, e-governance and the development of information technology reflect the country's gradual transformation into a knowledge-based economy. India's entry into this knowledge economy is best represented by its success in the Information Technology sector. The country's IT industry has expanded rapidly, offering diverse services ranging from software development to business process outsourcing.

According to a World Bank report, India possesses all the essential elements needed to transition into a developed economy. These include a large pool of skilled workers, a thriving democracy and a well-established, diversified science and technology infrastructure.

122. "Infrastructural development is an essential element to obtain the full potential of the rural sector in India".

Justify the given statement with valid arguments.

Ans :

OD 2024

To address the challenges in rural development, focus should be on improving transport systems, connecting rural and urban areas, providing power, ensuring permanent irrigation solutions, facilitating rural credit and enhancing agricultural research and rural marketing. Strengthening infrastructure is crucial to boost production and productivity in rural areas. Easy and affordable credit not only creates job opportunities but also promotes the shift from farming to non-farming and allied activities. Therefore, infrastructure development plays a pivotal role in advancing the overall rural economy.

123. Explain the micro credit programmes started by the government to improve rural credit.

or

Explain the role of micro credit in meeting the credit requirements of the poor.

Ans :

OD 2023

Self Help Groups (SHGs) have emerged as a significant development in rural credit, addressing gaps in the formal credit system. The formal credit mechanism has often proven inadequate and has not been fully integrated into rural social and community development. SHGs encourage savings among rural households, mobilizing small savings that are then provided as credit to members based on their needs. This credit is offered without collateral, at moderate interest rates and repayable in small installments. SHGs

THREE MARK QUESTIONS

121. 'India can transform itself knowledge-based economy by using information technology.' Justify the given statement.

Ans :

OD 2024

India is emerging as a knowledge hub, with the Indian software industry experiencing remarkable growth over the past few decades. The widespread

have also contributed to the empowerment of women. These micro-credit programs are growing in popularity, with over 7 lakh SHGs operating in rural areas, mainly due to their informal credit delivery system and minimal legal requirements.

- 124.** Discuss the importance of credit in rural development.

Ans :

COMP 2024 ,2020

In agriculture, the long gap between crop sowing and income realization creates a strong need for credit. Farmers require funds to cover initial investments in seeds, fertilizers, implements and also to meet personal expenses such as family weddings, funerals and religious ceremonies. Hence, credit plays a vital role in agricultural production. A well-functioning rural credit delivery system is essential for increasing agricultural productivity and incomes, ultimately contributing to rural development..

- 125.** Explain the importance of credit availability to farmers in rural development.

Ans :

SQP 2023

Credit is essential for the rural sector, particularly in farming, for the following reasons:

- (i) The growth of the rural economy relies heavily on a regular infusion of capital, which is necessary to achieve higher productivity and production in both agriculture and non-agriculture sectors.
- (ii) Since there is a long gap between crop sowing and income realization, farmers need credit to cover initial investments in seeds, fertilizers, implements and other family expenses such as weddings, funerals and religious ceremonies.

- 126.** In India, rural credit plays a crucial role in supporting agriculture and rural development, which are the backbone of the economy. Despite various efforts, commercial banks face numerous challenges in extending credit to rural areas. Briefly discuss some of the problems being faced by commercial banks in providing rural credit.

Ans :

FOREIGN 2018

Some challenges faced by commercial banks in extending rural credit include:

- (i) The profitability of newly established rural branches is low due to limited business potential in these areas.
- (ii) Loan recovery remains unsatisfactory, creating a persistent issue for the banks.

- (iii) The large number of rural loans, coupled with their small amounts, increases transaction costs, adding to the financial burden of the banks..

- 127.** India's dairy sector experienced a significant transformation in the 1970s, improving milk production and rural incomes. This was achieved through an initiative called Operation Flood. Write a short note on "Operation Flood".

Ans :

DELHI 2019

Over the past thirty years, the Indian Dairy Sector has shown remarkable growth, largely due to the successful implementation of Operation Flood. This program involves farmers pooling their milk based on quality grades, which is then processed and marketed to urban areas through cooperatives. It ensures that farmers receive fair prices and stable income from supplying milk to urban markets. Gujarat serves as a prime example of the successful and efficient operation of milk cooperatives, a model now adopted by several other states.

- 128.** Write a short note on agro-processing industries.

Ans :

OD 2020

The agro-processing industry involves the transformation of products derived from agriculture, forestry and fisheries. It can be defined as a set of techno-economic activities aimed at preserving and processing agricultural produce, making it suitable for use as food, feed, fiber, fuel, or industrial raw materials. Agro-processing is considered a key sector for India's economic growth, particularly due to its significant potential for employment and income generation. The Indian food processing industry, which includes products like fruits, vegetables, milk, fisheries and various consumer goods (such as confectionery, chocolates and soy-based products), is a prime example. Other sectors include rice and flour milling, leather tanning and oil pressing.

- 129.** Agricultural diversification helps improve rural income by providing alternative sources of earnings. It reduces risks and ensures stable livelihoods for farmers. Explore the link between rural income and agricultural diversification.

Ans :

FOREIGN 2021

Diversification involves two key aspects:

- (i) Agricultural Diversification: This refers to shifting from a single cropping system

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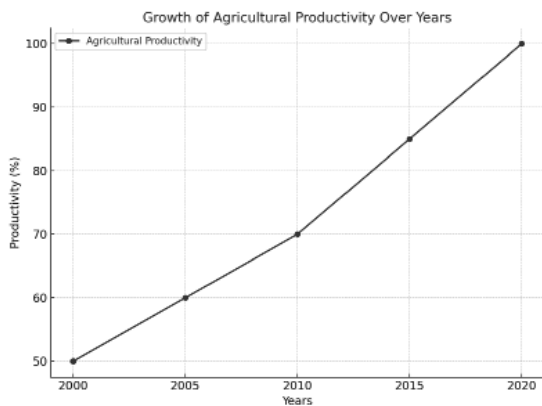
Ans :

SQP 2013

(a) Non-Institutional Sources

The bar graph shows that Non-Institutional Sources provide 40% of rural credit, which is the highest among all categories. Cooperative Banks provide 25%, Commercial Banks 20% and Regional Rural Banks 15%. This highlights the significant role of non-institutional sources in rural credit systems.

90. Based on the line graph, during which period did agricultural productivity see the highest increase in percentage?



- (a) 2000 to 2005 (b) 2005 to 2010
(c) 2010 to 2015 (d) 2015 to 2020

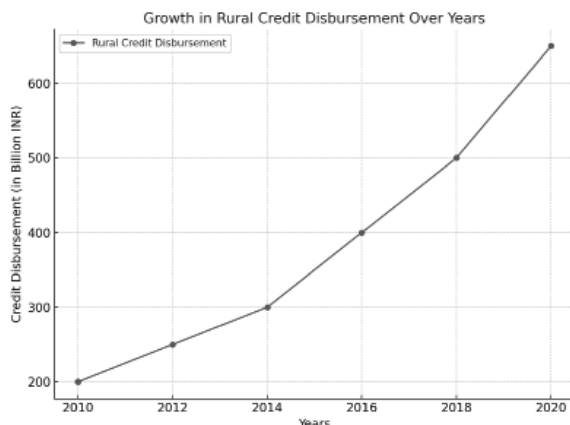
Ans :

DELHI 2015

(c) 2010 to 2015

The graph shows a significant increase in productivity from 70% in 2010 to 85% in 2015, the largest increase compared to other periods. Other intervals had smaller increments, making 2010 to 2015 the most substantial growth phase.

91. Based on the line graph, in which period did rural credit disbursement witness the largest increase?



- (a) 2010 to 2012 (b) 2012 to 2014
(c) 2014 to 2016 (d) 2018 to 2020

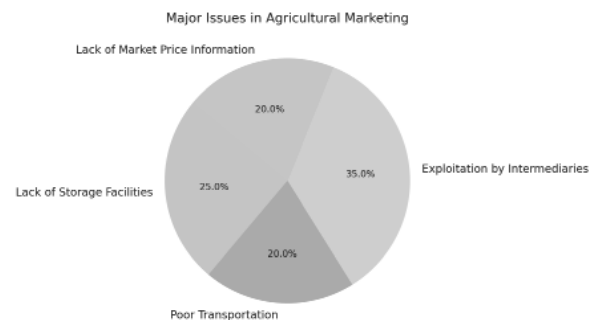
Ans :

SQP 2016

(d) 2018 to 2020

The graph shows that rural credit disbursement increased significantly from 500 billion INR in 2018 to 650 billion INR in 2020, the highest increment compared to other periods. This highlights the rapid growth in rural credit availability during this time.

92. According to the pie chart, which issue in agricultural marketing has the highest percentage?



- (a) Lack of Storage Facilities
(b) Poor Transportation
(c) Exploitation by Intermediaries
(d) Lack of Market Price Information

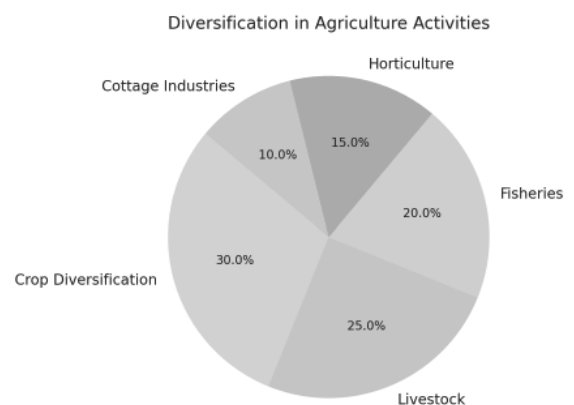
Ans :

COMP 2013

(c) Exploitation by Intermediaries

The pie chart indicates that “Exploitation by Intermediaries” accounts for 35% of the issues, the highest among the listed categories. Other issues like lack of storage facilities (25%), poor transportation (20%) and lack of market price information (20%) contribute significantly but are comparatively lower.

93. Based on the pie chart, which activity contributes the most to agricultural diversification?



farmers.

3. Infrastructure development: Building essential infrastructure, such as electricity, irrigation, credit facilities, transport, agricultural research and information dissemination, is crucial.
4. Poverty reduction: Efforts to alleviate poverty and improve living standards for disadvantaged groups must focus on providing productive employment opportunities. This involves enhancing the productivity of those involved in both farm and non-farm activities in rural areas. Moreover, people should be encouraged to diversify into non-farm sectors like food processing.

Additionally, improving healthcare, sanitation and education for all must be given top priority to ensure rapid rural development.

- 133.** Why has expansion and promotion of rural banking sector taken a backseat after reforms? Suggest possible measures to improve the situation.

Ans :

SQP 2023

The rapid growth of the banking system positively impacted rural farm and non-farm production, income and employment, particularly after the Green Revolution. However, the banking system still faces challenges due to several reasons:

- (i) Apart from commercial banks, other formal institutions have struggled to mobilize deposits, as rural farming families have not developed a culture of saving.
- (ii) High default rates on agricultural loans have been a persistent issue.
- (iii) The burden of debt has led to a rise in farmer suicides.

As a result, the focus on expanding and strengthening rural banking has diminished since the reforms. To improve the situation, the following measures have been suggested:

- (i) Banks should shift from merely lending to fostering relationship banking with borrowers.
- (ii) Promoting savings habits and efficient use of financial resources among farmers is essential.
- (iii) Cooperative credit societies should be transformed into multi-purpose societies with adequate funding capacity.

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- 134.** Distinguish between Institutional credit and Non-institutional credit.

Ans :

SQP 2023

	Basis	Institutional credit	Non-institutional credit
1.	Sources	The sources of institutional credit are Banks, cooperatives, RRB's etc.	Among the non-institutional sources, we include village money lenders, landlords, traders etc.
2.	Purpose	It is mainly provided for productive purposes.	It is provided for both productive and non-productive purposes.
3.	Cost of credit/ Rate of interest	Since it is regulated by the RBI, rate of interest generally remains low.	Since it is not regulated by the RBI, the cost of credit, i.e., the rate of interest is generally very high.
4.	Motive	The motive behind institutional credit is welfare of the people	Non institutional credit is guided by profit considerations.

- 135.** Why has Rural banking not been able to give adequate credit to farmers?

or

Critically evaluate the role of Rural banking system in the process of rural development in India.

Ans :

COMP 2015

Rural banking in India has expanded significantly over time, leading to several positive outcomes:

- (i) The nationalization of commercial banks in 1969 marked the beginning of social banking in rural areas, providing institutional credit at moderate interest rates to rural populations.
- (ii) The growth of rural banking has helped farmers break free from the exploitative debt trap of rural moneylenders.
- (iii) The establishment of NABARD (National Bank for Agriculture and Rural Development) brought more organization to the rural credit system.

- (iv) Institutional credit has positively impacted both rural farm and non-farm output and income. Banking institutions have supported farmers in agricultural and allied activities, boosting their average income.
- (v) These institutions have contributed to the creation of employment opportunities in rural areas by financing various self-employment programs run by the government through public sector banks.
- (vi) They have also succeeded in developing banking habits among rural people.

However, despite these positive developments, there are several issues with rural banking:

- (i) Inadequate credit : Despite the expansion, rural credit remains insufficient to meet the growing demand.
- (ii) Lack of coordination : The different institutions providing credit to farmers are not well-coordinated.
- (iii) Unequal distribution : Rural credit agencies have failed to meet the needs of small and marginal farmers, with wealthier farmers taking the majority of institutional credit.
- (iv) High default rates : Political pressure has led to reluctance in recovering loans, resulting in a high default rate on agricultural loans.
- (v) Demand for collateral : Many institutions require security or guarantees for loans, which often excludes small and marginal farmers from accessing credit.
- (vi) Problems in cooperatives : Cooperatives lack adequate financial resources to meet the growing credit demands in rural areas.
- (vii) Lack of thrift habits : Most financial institutions have not been successful in fostering a culture of savings among farming families, resulting in low deposit mobilization.

136. What are the different sources of rural credit in India?

Ans :

OD 2010

Sources of rural or agricultural credit can be broadly categorized into two groups:

1. Non-Institutional Sources:

- (i) Rural moneylenders : These are commonly used due to the ease with which farmers can obtain credit. However, they charge exorbitantly high interest rates.
- (ii) Traders and landlords : Historically, these sources have met most of the credit needs of farmers. They remain popular because they lend for both productive

and unproductive purposes, with a simple and quick borrowing process. Nevertheless, they also charge high interest rates and often manipulate the accounts. Additionally, these sources lack the resources to meet the medium and long-term credit needs of farmers.

2. Institutional Sources : Institutional sources refer to various formal institutions like cooperative societies, commercial banks, regional rural banks and others.

- (i) Cooperative credit societies : These societies offer farmers adequate credit at reasonable interest rates and also provide guidance in various agricultural activities to enhance crop productivity. The main objectives of these societies are:

- 1. Ensuring the timely and rapid flow of credit to farmers,
- 2. Eliminating moneylenders as credit sources,
- 3. Offering trade credit facilities across regions,
- 4. Providing sufficient credit in areas covered by special development programs.

There are two types of cooperative institutions for agricultural finance:

- Cooperative banks : They provide short-term and medium-term loans.
- Land Development Banks : These offer long-term loans to farmers.

- (ii) Commercial banks : Recognizing the role of commercial banks in rural credit, the government nationalized several banks in 1969. These nationalized banks provide credit both directly to farmers and indirectly through cooperative societies.

- (iii) Regional Rural Banks (RRBs) and Land Development Banks : These institutions were established to promote credit supply, particularly in remote and backward rural areas. Operating at the district level, RRBs focus on meeting the credit needs of the weaker sections of the rural population, with loans provided only for productive purposes.

- (iv) National Bank for Agriculture and Rural Development (NABARD) : NABARD is the apex institution responsible for policy, planning and operations in rural credit and related economic activities. It offers

refinance facilities to state cooperative banks, commercial banks and regional rural banks, which then provide credit to farmers. NABARD also plays a key role in directing, inspecting and supervising credit flow for agriculture and rural development. Its main functions include:

1. Serving as the apex funding agency for rural credit institutions,
2. Improving the credit delivery system,
3. Coordinating rural financing activities across all credit institutions,
4. Monitoring and evaluating financed projects,
5. Assisting non-farm sectors like artisans, weavers and village industries.

- 137.** “Social banking in rural areas has taken a hit in the wake of economic reforms of 1991.” Explain the statement.

Ans :

FOREIGN 2012

Since the 1990s, the monetary policy environment in India has undergone significant transformation, with a primary focus on progressive deregulation aimed at fostering market development and improving efficiency. Prior to the reforms, the monetary policy was marked by heavy control by the Reserve Bank of India (RBI). However, in the post-liberalization era, the RBI introduced various measures to ensure the safety and stability of the banking system while also encouraging banks to play a more active role in promoting economic growth.

While banking and financial sector reforms were intended to improve the rural credit environment, they largely failed to achieve this goal. The new banking culture, shaped by these reforms, prioritized lending to large corporates and consumption loans like car loans, rather than addressing the needs of rural areas. This shift adversely impacted the rural credit environment. Furthermore, the Indian banking system has not adequately focused on rural banking, as evidenced by the declining proportion of net bank credit allocated to agriculture. Post-reform, Indian banks have placed greater emphasis on the “three C’s”—consumer credit, corporate elite and capital market activities—rather than working to improve rural credit conditions.

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- 138.** Enumerate the essential features of well organised marketing.

or

Explain the features of a regulated market.

Ans :

DELHI 2023

A well-organized and regulated market should include the following key features:

- (i) Minimized middlemen: The number of intermediaries between farmers and consumers should be kept to a minimum to ensure fair prices for both.
- (ii) Adequate storage facilities: Proper storage infrastructure should be available to help farmers store their produce, enabling them to sell at more remunerative prices.
- (iii) Affordable transportation: There should be affordable and efficient transportation options so that farmers can transport their produce to markets, rather than selling it at exploitative prices in the village.
- (iv) Information dissemination: Information about market conditions and prevailing prices should be spread through mass media to keep farmers informed.
- (v) Grading and standardization: Facilities for grading and standardization should be provided to ensure the quality of agricultural products is maintained.

- 139.** The creation of orderly and transparent marketing conditions have benefited the farmers as well as the consumers. How?

Ans :

COMP 2019

Transparency and a well-structured market system would entail the following:

- (i) Regulation of markets: The initial step in creating a transparent and orderly marketing environment was the regulation of markets. This measure protected farmers from exploitation by brokers and ensured they received reasonable prices for their produce. By eliminating middlemen, the overall cost of products decreased, as fewer intermediaries meant less commission to be paid, which ultimately lowered the price for consumers.
- (ii) Standardization and grading: Using modern methods to standardize and grade products ensures that they are comparable and competitive. This process guarantees that higher-quality products command better prices and consumers receive value for their money. It also facilitates international trade,

produce.

4. Minimum support prices ensure farmers get a guaranteed price for their crops, preventing exploitation.

156. Diversification of agriculture reduces dependency on traditional farming and provides alternative sources of income. This includes diversification of crops and productive activities such as livestock, fisheries and horticulture. It not only stabilizes farmers' income but also reduces risks associated with crop failure and market fluctuations.

1. What are the two aspects of agricultural diversification?
2. How does diversification of crops benefit farmers?
3. Name any two productive activities mentioned in the case.
4. Why is diversification important for small farmers?

Ans :

1. The two aspects are diversification of crops and productive activities.
2. Diversification reduces risks and ensures stable income by growing multiple crops.
3. Two productive activities are livestock rearing and fisheries.
4. It provides alternative income sources, reducing dependence on land for livelihood.

157. Organic farming promotes sustainable agriculture by avoiding chemical fertilizers and pesticides. It provides healthier food and protects the environment but faces limitations like lower yields and poor market infrastructure. Despite its benefits, many farmers are unaware of organic farming techniques, which restricts its adoption.

1. What is organic farming?
2. Mention one benefit of organic farming.
3. State one limitation of organic farming.
4. Why is organic farming considered sustainable?

Ans :

1. Organic farming avoids chemical inputs and uses eco-friendly methods for crop production.
2. One benefit is healthier and chemical-free food with higher nutritional value.
3. A major limitation is the lower yields compared to modern farming techniques.
4. Organic farming is sustainable because it prevents soil and water pollution, preserving the environment.

158. Rural infrastructure, including roads, irrigation and electricity, is essential for rural development. It supports agricultural growth, improves access to markets and enhances rural livelihoods. However, lack of proper infrastructure still remains a major challenge, affecting farmers' productivity and income.

1. Why is rural infrastructure important for farmers?
2. Mention two components of rural infrastructure.
3. How does rural infrastructure improve market access?
4. What impact does poor infrastructure have on farmers?

Ans :

1. Rural infrastructure helps farmers improve productivity and access markets for their produce.
2. Two components are roads and irrigation facilities.
3. It enables farmers to transport their produce to markets, ensuring better prices.
4. Poor infrastructure reduces productivity and forces farmers to sell at lower prices.

159. Read the para given below and answer the questions that follow:

Food quality and safety are the two important factors that have gained ever-increasing attention in general consumers. Conventionally grown foods have immense adverse health effects due to the presence of higher pesticide residue, more nitrate, heavy metals, hormones, antibiotic residue and also genetically modified organisms. Moreover, conventionally grown foods are less nutritious and contain lesser amounts of protective antioxidants. In the quest for safer food, the demand for organically grown foods has increased during the last decades due to their probable health benefits and food safety concerns. Organic food production is defined as cultivation without the application of chemical fertilisers and synthetic pesticides or genetically modified organisms, growth hormones and antibiotics. The popularity of organically grown foods is increasing day by day owing to their nutritional and health benefits. Organic farming also protects the environment and has a greater socio-economic impact on a nation. India is a country that is bestowed with indigenous skills and potentiality for growth in organic agriculture. Although India was far behind in the adoption of organic farming due to

light of the above statement, explain any two advantages of diversification in agriculture.

Ans :

DELHI 2023

Agricultural diversification refers to reallocating some of a farm's resources into new activities or crops to reduce market risks. It has two main components:

1. Change in cropping patterns: This involves diversifying crop production.
2. Shift of workforce: This refers to moving workers from agriculture to allied activities (such as livestock, poultry and fisheries) and non-agricultural sectors.

Agricultural diversification is essential for sustainable livelihoods for the following reasons:

- (i) Risk reduction: Relying solely on farming for livelihood presents significant risks, making diversification necessary.
- (ii) Providing sustainable livelihoods: Shifting towards new areas helps reduce agricultural risks and provides rural populations with long-term, productive livelihood options.
- (iii) Seasonal employment gaps: Much of agricultural work is concentrated in the kharif season. In areas with limited irrigation, employment opportunities during the rabi season are scarce. Diversification into other sectors helps provide supplementary employment and higher income, reducing poverty.
- (iv) Relieving population pressure on land: To reduce the strain on agricultural land, it is vital to shift the workforce to allied activities and non-agricultural sectors.
- (v) Higher growth and income: Crop diversification leads to higher growth and increases rural incomes.
- (vi) Income stability: Diversification helps stabilize farm income during periods of fluctuating production levels and market prices.
- (vii) Meeting growing demand: It also addresses the increasing demand for products like fruits, fish, eggs, milk and dairy products.

- 143.** "The Prime Minister urged to increase the rural income by increasing non-farm activities."

Explain how non-farm activities can lead to rise in income of people in rural sector.

Ans :

FOREIGN 2020

Some key non-farm employment areas include animal husbandry, fisheries, horticulture and other alternative livelihood options:

- (i) Livestock Production: Livestock farming offers stability in income, food security, transport, fuel and nutrition without disrupting other agricultural activities. It provides alternative livelihood opportunities for over 70 million small and marginal farmers, including landless laborers.
- (ii) Indian Dairy Sector: The performance of the dairy sector in India has been impressive. Between 1951 and 2014, milk production increased more than eightfold, reflecting significant growth in this sector.
- (iii) Meat, Eggs, Wool and By-products: In addition to dairy, sectors like meat, eggs, wool and other by-products are emerging as vital components for agricultural diversification, contributing to rural livelihoods.
- (iv) Fisheries and Aquaculture: With increased budgetary allocation and the adoption of new technologies, the fisheries sector in India has made significant progress. Today, fish production accounts for 0.8% of India's total GDP, offering new employment and income sources for rural communities.
- (v) Horticulture: Horticulture plays a crucial role in agricultural diversification. It contributes nearly one-third of agricultural output and 6% of India's GDP. India is a global leader in producing fruits like mangoes and bananas and is the second-largest producer of fruits and vegetables. The horticulture sector has improved the economic condition of many farmers and has become an important source of income for rural families. Activities like flower harvesting, nursery maintenance, hybrid seed production and tissue culture are lucrative employment opportunities, especially for women in rural areas.

- 144.** "IT plays a significant role in achieving sustainable development and food security". Comment.

or

Information technology has gone a long way to bring about new developments to help the farmers. Elucidate.

Ans :

SQP 2013

Information Technology (IT) has brought about significant transformations in various sectors of the Indian economy and it is widely believed that IT can play a vital role in achieving sustainable development and food security.

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- 150.** State the meaning of organic farming. Discuss how does it help in promoting sustainable development.

Ans :

COMP 2022

Organic farming is a holistic agricultural system that restores, maintains and enhances ecological balance. It emphasizes maintaining soil health (rather than focusing solely on plant health) to ensure that farming becomes both sustainable and environmentally friendly.

In recent years, significant efforts have been made to raise awareness about the harmful impacts of conventional agriculture, which heavily relies on chemical fertilizers and toxic pesticides. These chemicals contaminate the food supply, pollute water sources, harm livestock, deplete soil fertility and disrupt the natural ecosystem. As a result, there has been a growing push to develop eco-friendly agricultural technologies essential for sustainable development. Organic farming is one such eco-friendly solution. It is based on the use of organic inputs for cultivation, such as crop rotation, animal manures, composts and natural pest control, all of which help maintain soil fertility while minimizing environmental harm.

- 151.** Why did there arise a need for an alternate system of farming?

Ans :

SQP 2019

The Green Revolution, which began in the 1960s, was driven by the use of chemical fertilizers and pesticides to increase agricultural productivity. However, this reliance on chemical inputs has led to several significant problems:

- (i) **Health Risks :** Conventional agriculture's heavy use of chemical fertilizers and toxic pesticides contaminates the food supply, posing serious health risks to humans.
- (ii) **Environmental Damage :** The extensive use of fertilizers has resulted in rising environmental costs, including soil degradation, which reduces the long-term sustainability of agricultural land.
- (iii) **Balance of Trade Issues :** The heavy importation of fertilizers has placed a significant strain on India's balance of trade, as the country needs to spend large sums of foreign currency to acquire these inputs.
- (iv) **Declining Fertilizer Efficiency :** Over time, the effectiveness of fertilizers has diminished, meaning more and more fertilizers are required to achieve the same level of crop yield, leading

to diminishing returns and increased costs.

Given these issues, there has been growing recognition of the need for an alternative farming system—one that avoids the harmful effects of chemical inputs and focuses on long-term sustainability.

- 152.** What is organic farming? Explain its benefits and limitations.

or

“Organic Farming is the need of the hour to promote sustainable development but, has its own limitations.”

Ans :

FOREIGN 2023

The Green Revolution, which began in the 1960s, significantly boosted agricultural productivity through the use of chemical fertilizers and pesticides. However, this reliance on chemical inputs has resulted in several critical challenges:

- (i) **Health Risks:** The heavy use of chemical fertilizers and pesticides in conventional agriculture has contaminated the food supply, leading to serious health concerns for consumers.
- (ii) **Environmental Damage:** Continuous fertilizer use has contributed to soil degradation, undermining the long-term sustainability of agricultural land and harming the environment.
- (iii) **Balance of Trade Issues:** The large-scale importation of fertilizers has become a major burden on India's balance of trade, requiring substantial foreign exchange to meet domestic demand.
- (iv) **Declining Fertilizer Effectiveness:** Over time, the efficiency of fertilizers has decreased, necessitating larger quantities to achieve the same crop yields, resulting in higher costs and diminishing returns.

These problems have led to an increased recognition of the need for alternative farming methods—systems that minimize the negative impact of chemical inputs while promoting long-term agricultural sustainability.

- 153.** Why is organic farming being considered as an important tool to promote sustainable development?

or

“Use of chemical fertilizers to compensate for food shortages gives good dividend at one time in the form of increased production but becomes a disaster later in the form of adverse effects on health.” How can we overcome this problem?

as herbs. It also includes the processing and sale of these products. India is currently the second-largest producer of fruits and vegetables globally and is a leading producer of mangoes, bananas, coconuts, cashew nuts and various spices.

The significance of horticulture in improving livelihoods for farmers and disadvantaged groups is evident in the following points:

- (i) Expansion of Horticulture: Over time, there has been a considerable increase in the area under horticulture.
- (ii) The “Golden Revolution”: High crop productivity led to the “Golden Revolution” in horticulture between 1991 and 2012. Planned investments during this period made horticulture highly productive, establishing it as a sustainable livelihood option.
- (iii) Improved Economic Conditions: Many farmers involved in horticulture have experienced improved economic conditions and it has become a vital source of livelihood for many disadvantaged communities.
- (iv) Reduced Vulnerability : Shifting to horticulture farming has decreased the economic vulnerability of small and marginal farmers.
- (v) Employment Opportunities for Women: Horticulture has created new employment avenues for women in rural areas, particularly in activities such as flower harvesting, nursery maintenance, hybrid seed production, tissue culture, fruit and flower propagation and food processing.
- (vi) Contribution to Rural Employment: Horticulture and related activities generate nearly 20% of total rural employment.

However, the horticulture sector faces several challenges:

1. Land Use Shift: The expansion of horticulture has occurred at the expense of acreage used for growing pulses, leading to a severe shortfall in pulse supply and higher prices, which affects consumption.
2. Infrastructure and Investment Gaps: More investment is needed in key areas such as electricity, cold storage, marketing linkages, small-scale processing units and the dissemination of improved technology to support the growth of the horticulture sector.

148. “As agriculture is already overcrowded, the ever increasing labour force needs to find alternate employment opportunities in other non-farm

sectors.” Explain the statement.

Ans :

OD 2020

The need for diversification stems from the high risks associated with relying solely on farming for livelihood. Expanding into other sectors is crucial to provide supplementary and stable employment opportunities.

The non-farm economy comprises several segments:

- (i) Growing Sectors: These include industries that offer healthy growth prospects, such as agro-processing, food processing, leather industry and tourism.
- (ii) Untapped Potential: Some sectors, like pottery, crafts and handlooms, have potential but currently face low productivity due to inadequate infrastructure and support systems.

Branching out into these non-farm activities can help rural populations achieve higher income levels, which in turn can reduce poverty and other challenges. Therefore, there is a need to focus on allied activities, non-farm employment and emerging livelihood alternatives as sustainable options for rural development.

149. Discuss the main features of organic farming.

Ans :

FOREIGN 2022

The main features of organic farming are:

- (i) Sustainability: Organic farming is a sustainable agricultural system that ensures the long-term fertility of the soil by using locally produced organic inputs, which helps in preserving the environment.
- (ii) Nutrient Sources: The major sources of nutrients in organic farming include animal dung, crop residues, green manure and bio-fertilizers, which are used to enhance soil fertility naturally.
- (iii) Soil Health Focus: Organic farming emphasizes maintaining soil health rather than just focusing on plant health, as healthy soil is essential for productive and sustainable crop growth.
- (iv) Ecological Principles: Organic farming is grounded in ecological principles, promoting biodiversity and natural processes as the foundation for crop production, which reduces reliance on chemical inputs.

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as goods are often valued based on their grade and standard.

140. What is meant by Agricultural marketing? Discuss certain defects of Agricultural marketing in India.

Ans :

SQP 2018

Agricultural marketing refers to the comprehensive system that helps farmers sell their surplus produce. It involves various operations, such as procurement, grading, storage, transportation and distribution of agricultural commodities nationwide.

Defects in Agricultural Marketing:

- (i) Lack of storage facilities: Farmers face difficulties in waiting for better prices due to inadequate storage options, forcing them to sell at lower prices.
- (ii) Poor road infrastructure: Insufficient road networks in rural areas prevent farmers from reaching mandis where fair prices can be obtained.
- (iii) Presence of intermediaries: The numerous middlemen reduce the farmers' earnings as they claim significant margins.
- (iv) Lack of price information: Farmers are often unaware of prevailing market prices, affecting their ability to negotiate effectively.
- (v) No grading of crops: Farmers fail to separate good-quality crops from lower-quality ones, preventing them from getting better prices.
- (vi) Limited access to institutional finance: Inadequate institutional credit forces farmers to rely on moneylenders and traders, leading to exploitation.
- (vii) Disorganized farmer groups: The lack of collective organization among farmers hinders their ability to negotiate better prices for their products.

141. Discuss any two measures initiated by the government to improve Agricultural marketing in India.

Ans :

FOREIGN 2012

To enhance the agricultural marketing system, the government has implemented several key measures, as outlined below:

- (i) Regulated Markets: The government has established regulated markets where the sale and purchase of agricultural products are overseen by a market committee comprising representatives from the government, farmers and traders. This ensures transparency, with

strict monitoring of proper scales and weights, guaranteeing that farmers receive fair prices for their produce.

- (ii) Cooperative Agricultural Marketing Societies: The formation of cooperative agricultural marketing societies is encouraged. These societies offer several benefits to farmers, including:

1. Improved bargaining power: Farmers can negotiate better prices through collective action.
2. Credit facilities: The societies provide credit to farmers for their immediate financial needs.
3. Storage facilities: With storage facilities available, farmers can hold onto their produce until market prices become more favorable.
4. Control over supply and prices: The societies can regulate the supply of produce, influencing prices to benefit their members.

- (iii) Provision of Warehousing Facilities: To prevent distress sales, the government offers warehousing facilities through central and state warehousing corporations. This allows farmers to store their produce and sell it when market conditions are more favorable.

- (iv) Subsidized Transport: The government, through the railway system, offers subsidized transportation for farmers to transport their produce to urban markets where they can fetch better prices.

- (v) Dissemination of Information: Both electronic and print media are actively involved in providing farmers with market-related information, helping them make informed decisions about when and where to sell their produce.

- (vi) Minimum Support Price (MSP) Policy: The government ensures a guaranteed price for certain agricultural commodities through the MSP policy. Before each season, minimum support prices for 24 agricultural products are announced. The Food Corporation of India purchases food grains at these prices, offering farmers a safety net. However, farmers are free to sell their produce at prices higher than the MSP.

142. "Recently the Government of India has taken numerous steps towards increasing the farmer's income through agricultural diversification." In

Ans :

DELHI 2018

Organic farming is a comprehensive agricultural system that restores, maintains and enhances ecological balance. It focuses on preserving soil health (rather than just plant health), ensuring that farming is a sustainable and eco-friendly practice over the long term.

Some notable advantages of organic farming over conventional farming include:

- (a) **Rising Demand for Organic Food:** The demand for organically grown food is increasing globally due to its higher nutritional value and enhanced food safety, making it a preferred choice for health-conscious consumers.
- (b) **Eco-friendly Inputs:** Organic farming utilizes eco-friendly technologies and locally produced organic inputs, which are more affordable and sustainable than the chemical-based fertilizers and toxic pesticides used in conventional farming. These chemicals often deplete soil health and disrupt natural ecosystems.
- (c) **Sustainable Development:** Organic farming contributes to sustainable development by promoting the optimal use of our scarce and depleting resources. This approach ensures the preservation of resources for future generations, making it more sustainable in the long run.
- (d) **Fertilizer Effectiveness:** The effectiveness of chemical fertilizers has been declining, meaning more are required to achieve the same yield, which leads to diminishing returns and increased costs. Organic farming avoids this dependency.
- (e) **Positive Economic Impact:** The heavy importation of fertilizers has caused a drain on foreign exchange reserves. In contrast, organic farming relies on locally produced inputs, helping improve the balance of payments. Additionally, the growing global demand for organic products has increased exports, leading to an inflow of foreign exchange.
- (f) **Soil Fertility Maintenance:** The use of animal manure and compost in organic farming helps sustain and enhance soil fertility, ensuring long-term productivity without depleting the land.

In summary, organic farming offers multiple environmental, economic and health benefits, making it a more sustainable alternative to conventional farming practices.

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CASE BASED QUESTION

154. Rural credit plays a crucial role in supporting agriculture and rural development. Farmers often rely on institutional and non-institutional sources for credit to meet their financial needs. However, institutional sources like cooperative banks, commercial banks and RRBs face challenges like slow loan recovery and complex paperwork, which restrict timely credit delivery to farmers.

1. What are the two main sources of rural credit?
2. State one major challenge faced by institutional credit agencies.
3. How do cooperative banks help farmers?
4. Why is timely rural credit important for farmers?

Ans :

1. The two main sources of rural credit are institutional and non-institutional sources.
2. A major challenge is the complex paperwork involved in obtaining loans.
3. Cooperative banks provide short-term and medium-term loans to farmers for agricultural activities.
4. Timely credit ensures farmers can buy inputs like seeds and fertilizers at the right time for better productivity.

155. Agricultural marketing in India faces issues such as poor storage facilities, lack of transportation and the presence of intermediaries. Farmers often fail to get fair prices for their produce due to inadequate market information and forced early sales. The government has introduced measures like regulated markets and minimum support prices to address these problems.

1. What is agricultural marketing?
2. Mention one defect in the agricultural marketing system.
3. How do regulated markets help farmers?
4. State the role of minimum support prices in agricultural marketing.

Ans :

1. Agricultural marketing involves selling surplus produce through operations like grading, storing and distribution.
2. One defect is the lack of proper storage facilities, forcing early sales at low prices.
3. Regulated markets protect farmers from malpractices and ensure fair prices for their

3.	White Revolution	C.	pooling and then marketing of milk through cooperatives
4.	Golden revolution	D.	shifting of workforce from agriculture to other allied activities

- (a) 1-A
(b) 2-B
(c) 3-C
(d) 4-D

Ans :

- (c) they provide long term credit.
- (d) both (a) and (b)
- (d) all of the above
- (d) 4-D

- 161.** Read the para given below and answer the questions that follow:

The future of India's agriculture economy lies in crop diversification. The continued practice of wheat and paddy crop production pattern since the Green revolution has adversely impacted the natural resources. Indian government needs to promote the growing of less water consuming crops like oil seeds, cotton, pulses and maize. Growing of paddy led to depleting water table, soil fertility issues and stubble burning in the states of Haryana, Punjab and Uttar Pradesh.

Crop diversification refers to the growth of more variety of crops or changes in the existing pattern of crop production. The downgrading ecological situation, depleting groundwater levels and declining fertility of soil clear the need for crop diversification. This is aimed at increasing farmer's income and decreasing negative impacts on the environment while also conserving the natural resources. Besides, it also helps to minimize price fluctuations and balance food demand.

Bringing diversity in crops results in strengthening ties between crop culture and livestock. It ensures the availability of rural employment around the year and future of India's agriculture economy. It also results in crop intensification (increase yield per hectare) through the genetic engineering of plants. Crops grow in their required environmental conditions thus removing the barriers of lack of irrigation. On the top of it, it brings back the soil's nutrient

profile and environmental sustainability.

- Diversification of crop production relates to:
 - (a) maintaining natural ecosystem
 - (b) shift from subsistence to commercial farming
 - (c) hybrid seed production
 - (d) production of a variety of fruits
- Which of the following poses a challenge to rural development in India?
 - (a) inadequate institutional credit
 - (b) organic farming
 - (c) unorganised markets
 - (d) lack of irrigation facilities
- Agricultural marketing comprises of the following operations:
 - (a) collection of farm produce.
 - (b) setting up of regulated markets
 - (c) transportation
 - (d) both (a) and (c)
- Match the following column and choose the correct option

	Column I		Column II
1.	Grading	A.	small loans to rural poor who have no access to formal banking system
2.	Rural Development	B.	classifying the agricultural produce according to the qualities
3.	Micro credit	C.	collective selling of farmers output through cooperatives
4.	Cooperative marketing	D.	integrated development of rural areas

- (a) A, D, B, C
(b) A, 6, C, D
(c) C, A, B, D
(d) B, D, A, C

Ans :

- (b) shift from subsistence to commercial farming
- (a) inadequate institutional credit
- (d) both (a) and (c)
- (a) A, D, B, C

several reasons, presently it has achieved rapid growth in organic agriculture and now becomes one of the largest organic producers in the world. Therefore, organic farming has a great impact on the health of a nation like India by ensuring sustainable development.

- Which of the following is not a benefit of organic farming?
 - cheaper inputs.
 - attractive returns on investment.
 - greater import possibilities.
 - higher nutritional value.
- Identify the policy instruments initiated by the government to improve agricultural Marketing System after independence:
 - regulation of markets
 - minimum support price
 - maintenance of buffer stock
 - both (b) and (c)
- NABARD was set up in 1982 as an apex body to coordinate the activities of all Institutions involved in the rural financing system. (True/False)
- Nationalisation of commercial banks took place in:
 - 1965
 - 1969
 - 1967
 - 1966

Ans :

- (c) greater import possibilities.
- (d) both (b) and (c)
- True
- (b) 1969

160. Read the para given below and answer the questions that follow:

Due to the economic downturn caused by Covid-19 pandemic, India's GDP contracted by 23.9 % in the first quarter. However, a silver lining in this degrowth scenario can be noted as agriculture grew by 3.4%. Despite green shoots, agriculture in India has been ailing for a long time. It has been grappling with issues like fast depleting groundwater, soil degradation, fragmented markets, barely functioning agricultural extension services and speeding up of climate change. It is due to these factors that agriculture cannot overturn contraction in other sectors, but along with the non-farm rural sector, it could jump-start the economy. Apart from this, Non-Farm rural

activities (livestock, fisheries and food processing, etc.) are advantageous in lifting the poor above the poverty line. Therefore, it becomes imperative to identify the issues of the non-farm rural sector in India to focus on building strong growth links between the non-farm rural economy and agriculture.

The non-farm sector, particularly in rural areas, is being accorded wide recognition in recent years. A planned strategy of rural non-farm development may prevent many rural people from migrating to urban industrial and commercial centres. Non-farm rural industries are generally less capital-intensive and more labour absorbing. Thus, they can play a critical role in employment growth in rural areas. Efforts are needed to identify appropriate and effective institutional vehicles for the development of non-farm sector policy and interventions for creating employment opportunities.

- Identify the incorrect statement regarding self help groups from the given statements:
 - SHGs focus on rural poor, small and marginal farmers etc.
 - it is a micro credit program.
 - they provide long term credit.
 - they promote thrift in small proportions by a minimum contribution from each member.
- Cooperatives have received a setback during the recent past due to:
 - inefficient financial management.
 - lack of appropriate link between marketing and processing cooperatives.
 - fluctuating farm production.
 - both (a) and (b)
- Horticulture provides remunerative employment options in the following areas:
 - flower harvesting
 - hybrid seed production
 - nursery maintenance
 - all of the above
- From the given statements in Column I and Column II, identify the correct pair of statements:

	Column I		Column II
1.	Organic Farming	A.	rise in the production of fruits and vegetables
2.	Diversification	B.	eco friendly system of agriculture

1. **Predicting Food Insecurity:** Governments can utilize IT and software tools to predict areas vulnerable to food insecurity. By analyzing relevant data, proactive measures can be taken to prevent or mitigate the impact of food shortages or emergencies.
2. **Impact on Agriculture:** IT has positively impacted the agricultural sector by facilitating the dissemination of crucial information such as emerging technologies, market prices, weather forecasts and soil conditions for different crops. This enables farmers to make informed decisions about the quantity and quality of crops to produce, improving efficiency and productivity.
3. **Employment Generation in Rural Areas:** IT also holds significant potential for creating job opportunities in rural areas, helping to bridge the urban-rural employment gap and contributing to rural economic growth.

145. 'Though the livestock population is quite impressive, it's productivity remains low.' Suggest ways to improve the livestock productivity in our country.

Ans :

OD 2020

Livestock productivity in India is relatively low compared to other countries. Several measures can help improve it:

- (i) **Adoption of Improved Technology and Better Breeds:** Introducing advanced technologies and promoting superior animal breeds can significantly boost livestock productivity.
- (ii) **Better Veterinary Care and Access to Credit:** Providing improved veterinary services and offering credit facilities to small and marginal farmers can enhance livestock health and productivity, leading to more sustainable livelihoods.
- (iii) **Investment in Infrastructure and Marketing Linkages:** Strengthening infrastructure, improving marketing linkages and disseminating relevant information can further increase the productivity of livestock in India.

146. Why is agricultural diversification considered necessary for rural development in India?

Ans :

COMP 2023

Agricultural diversification involves reallocating some of a farm's resources into new activities or crops to reduce market risks. It has two main

aspects:

1. **Change in Cropping Pattern:** This involves shifting from monocropping (single crop production) to a more diversified cropping system.
2. **Shift of Workforce:** This entails moving the workforce from agriculture to allied activities such as livestock, poultry, fisheries and other non-agricultural sectors.

Agricultural diversification is crucial for sustainable livelihoods for the following reasons:

- (i) **Risk Reduction:** Relying solely on farming increases the risk to livelihood. Diversification helps reduce these risks.
- (ii) **Sustainable Livelihoods:** Diversifying into new areas not only reduces agricultural risk but also provides more sustainable and productive livelihood options for rural communities.
- (iii) **Seasonal Employment:** Agricultural activities are mostly concentrated in the kharif season and in areas with poor irrigation, it becomes difficult to find work during the rabi season. Diversification into other sectors helps provide supplementary employment, raising income and helping to alleviate poverty.
- (iv) **Population Pressure on Land:** To ease the pressure of population growth on land, shifting the workforce to allied and non-agricultural sectors is necessary.
- (v) **Increased Growth and Income:** Crop diversification leads to higher agricultural growth and increased income levels for rural populations.
- (vi) **Income Stability:** Diversification stabilizes farm income by reducing the impact of fluctuations in production and market prices.
- (vii) **Meeting Growing Demand:** Diversification helps meet the increasing demand for products like fruits, fish, eggs, milk and dairy products, thus supporting food security and rural economies.

147. What is horticulture? How has it become a means of improving livelihood for the unprivileged classes? What are the challenges being faced in this sector?

or

How has horticulture encouraged Indian rural development?

Ans :

DELHI 2021

Horticulture refers to the cultivation of flowers, fruits, vegetables and other plants such as medicinal, aromatic and ornamental plants, as well

CHAPTER 11

EMPLOYMENT GROWTH, INFORMALISATION AND OTHER ISSUES

SUMMARY

1. SOME BASIC TERMS

Understanding key economic terms is essential to analyze employment, workforce patterns and economic productivity in a country. These terms help in assessing the contribution of different sections of society to the economy and identifying challenges like unemployment and informalization.

1. **Gross Domestic Product (GDP)** : It is the total money value of all goods and services produced in a country in a year.
2. **Gross National Product (GNP)** : when earnings from foreign transactions are added to Gross Domestic Product, it is called Gross National Product for that year.
3. **Workers** : All those persons who are engaged in economic activities are called workers.
4. **Employment** : It is a contract in which one person, the employee, agrees to perform work for another, the employer.
5. **Population** : It is defined as the total number of people who reside in a particular locality at a particular point of time,
6. Worker population Ratio

$$= \frac{\text{Total number of workers}}{\text{Total population}} \times 100$$

This ratio is useful in knowing the proportion of population contributed to the production of goods and services of a country.

7. **Labour force participation rate** : It refers to the ratio of labour force to the total population.

Labour force participation rate

$$= \frac{\text{Total labour force}}{\text{Total population}} \times 100$$

8. **Labour force** : It includes all those persons who are actually employed in some kind of economic activity as well as those who can be engaged in work. Thus, labour force includes

both employed as well as unemployed people between the age group of 15-60 years.

9. **Workforce** : It includes only those persons who are actually engaged in economically productive activities.
10. **Self-employed** : workers who own and operate an enterprise to earn their livelihood are known as self employed.
11. **Casual wage labourers** : Such labourers are casually engaged in other's firms on temporary basis and in return, get remuneration for the work done.
12. **Regular salaried employees** : when a worker is engaged by someone or by an enterprise and paid his or her wages on a regular basis, they are known as regular salaried employees.
13. **Casualization of workforce** : It refers to a situation when the percentage of casually hired workers in the total workforce increases over time.
14. **Informalization of workforce** : It refers to a process whereby the proportion of informal workers in the total workforce increases.
15. **Formal sector** : Formal sector refers to the organized sector of the economy which includes all government departments, public enterprises and private establishments which hire 10 or more workers.
16. **Informal sector** : It includes all those private enterprises which hire less than 10 workers.
17. **Formal workers** : Those working in the organized sector are called formal workers.
18. **Informal workers** : Those working in the unorganized sector are called informal workers.

2. UNEMPLOYMENT

A person is said to be unemployed when he is able and willing to work at the prevailing wage rate but does not find work.

2.1 Seasonal Unemployment

Unemployment of people engaged in seasonal activities is called seasonal unemployment. In India,

Ans :

FOREIGN 2001

(a) Providing employment opportunities for self-employment and wage employment in urban areas.

The SJSRY aims to generate employment opportunities in urban areas through self-employment and wage-based programs.

- 23.** Which sector employs the majority of the female workforce, as per the content?

- (a) Secondary sector
- (b) Tertiary sector
- (c) Primary sector
- (d) Informal sector

Ans :

DELHI 2002

- (c) Primary sector

A significant proportion of women workers are concentrated in the primary sector, which includes agriculture and allied activities.

- 24.** What does “in-formalization of workforce” refer to, as mentioned in the content?

- (a) Increase in the proportion of workers in the organized sector.
- (b) Reduction in the number of workers employed in casual jobs.
- (c) Growth in the proportion of informal workers in the total workforce.
- (d) Decline in self-employed workers over time.

Ans :

SQP 2003

- (c) Growth in the proportion of informal workers in the total workforce.

In-formalization refers to an increase in the number of workers employed in unorganized, informal sectors of the economy.

- 25.** What is one key measure suggested to tackle the problem of seasonal unemployment in rural areas?

- (a) Promotion of multiple cropping and expanding irrigation facilities.
- (b) Increasing the use of capital-intensive techniques in farming.
- (c) Introducing vocational education in urban regions.
- (d) Providing financial aid for self-employment in industries.

Ans :

COMP 2004

- (a) Promotion of multiple cropping and expanding irrigation facilities.

Multiple cropping and irrigation facilities can help create year-round employment opportunities, addressing seasonal unemployment.

- 26.** Which of the following best defines ‘educated unemployment’ as mentioned in the content?

- (a) Unemployment among people without any education.
- (b) Unemployment among skilled workers in urban areas.
- (c) Unemployment among educated people who cannot find suitable jobs.
- (d) Unemployment due to lack of formal education and skills.

Ans :

OD 2005

- (c) Unemployment among educated people who cannot find suitable jobs.

Educated unemployment occurs when individuals with educational qualifications fail to secure jobs matching their skills.

- 27.** What does the term ‘labour force participation rate’ indicate?

- (a) The ratio of employed people to the unemployed population.
- (b) The ratio of the labour force to the total population.
- (c) The percentage of people working in the formal sector.
- (d) The proportion of self-employed workers in rural areas.

Ans :

FOREIGN 2005

- (b) The ratio of the labour force to the total population.

Labour force participation rate measures the ratio of people engaged or willing to engage in work relative to the total population.

- 28.** What is the main problem of workers in the informal sector as mentioned in the content?

- (a) Regular income and use of advanced technology.
- (b) Lack of job security, low wages and outdated technology.
- (c) High wages but lack of job opportunities.
- (d) Government protection but no social security benefits.

Ans :

DELHI 2006

- (b) Lack of job security, low wages and outdated technology.

Workers in the informal sector face challenges like irregular income, absence of social protection and the use of outdated technology.

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The gap between growth of GDP and employment was continuously widening. This trend was called as 'jobless growth'. It refers to a situation, when the economy is able to produce more goods and services without a proportionate increase in employment opportunities.

7. CHANGE IN OCCUPATIONAL STRUCTURE

Over the years, significant changes have been observed in the distribution of the workforce across various sectors. This transformation reflects the growing diversification of employment opportunities in the economy.

1. There has been a substantial shift from farm workers to non-farm workers.
2. The proportion of workforce engaged in primary sector has declined.
3. There is a clear shift in employment to secondary and tertiary sectors from primary sector.

8. INFORMALISATION OF WORKFORCE

Employment can be broadly classified as

1. Formal sector employment-Hires 10 or more workers who are protected through various labour laws and get social security benefits and better wages.
2. Informal sector employment-Hires less than 10 workers and are not regulated by government laws.

9. PROBLEMS OF INFORMAL SECTOR

The informal sector faces numerous challenges due to its unregulated nature, affecting both workers and entrepreneurs and leading to economic instability.

1. Do not get regular income.
2. Use outdated technology.
3. Entrepreneurs of this sector do not maintain accounts.
4. Do not have any protection, regulation from the government and hence, have no job security.
5. Workers belonging to this sector generally reside in slums.

10. NATURE OF UNEMPLOYMENT IN INDIA

Unemployment in India is categorized based on its occurrence in rural and urban areas, as well as other structural and transitional factors affecting the workforce.

1. **Rural Unemployment** : This includes seasonal and disguised unemployment.

The main reason for this being absence of proper irrigation facilities, lack of subsidiary employment opportunities, heavy dependence of workers on agriculture, etc.

2. **Urban Unemployment** : This includes educated unemployment. This is mainly due to slow increase in employment opportunities, rapid expansion of general education in the country, lack of vocational education, use of capital intensive techniques in production, etc.
3. **Other Kinds of Unemployment** : This includes open unemployment, structural unemployment (associated with the structural changes in the economy like change in demand pattern), underemployment and frictional unemployment (unemployment arising among people in between jobs).

11. CAUSES OF UNEMPLOYMENT

Unemployment in India arises from various structural, economic and social factors, impacting both rural and urban areas.

1. Underdevelopment of the economy.
2. Rapid growth rate of population has adversely affected the unemployment situation.
3. Agriculture is the main source of livelihood and being a seasonal occupation does not provide work to farming communities throughout the year.
4. Our education system has stressed on general education only and is neither job-oriented nor skill-oriented.
5. Economic reforms have led to the phenomenon of jobless growth.
6. The decline of cottage and small scale industries has resulted in massive unemployment among the artisans working in these industries.
7. Shortage of capital and lack of modern and advanced technology have led to generation of insufficient employment opportunities in the industrial sector.

12. REMEDIAL MEASURES FOR UNEMPLOYMENT

Addressing unemployment requires a multi-dimensional approach focusing on economic growth, education reforms and infrastructure development to generate sustainable job opportunities

1. The problem of unemployment can be solved through the process of accelerated growth.
2. Control of population can ensure that the additional jobs created do not fall short of

ASSERTION AND REASON

- 35. Assertion :** Worker-Population Ratio analyses the employment situation in the country.

Reason : A high Worker-Population Ratio indicates that a high proportion of population is not directly involved in economic activities.

- (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
- (b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).
- (c) Assertion (A) is true but Reason (R) is false.
- (d) Assertion (A) is false but Reason (R) is true.

Ans :

OD 2024

- (c) Assertion (A) is true but Reason (R) is false.

- 36. Assertion :** Workforce includes people employed in economic and non-economic activities.

Reason : It includes people who are actually engaged in productive activities.

- (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
- (b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).
- (c) Assertion (A) is true but Reason (R) is false.
- (d) Assertion (A) is false but Reason (R) is true.

Ans :

- (d) Assertion (A) is false but Reason (R) is true.

- 37. Assertion :** Urban people have a variety of employment opportunities.

Reason : People in urban areas have better educational attainments and skills.

- (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
- (b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).
- (c) Assertion (A) is true but Reason (R) is false.
- (d) Assertion (A) is false but Reason (R) is true.

Ans :

DELHI 2021

- (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).

- 38. Assertion :** Work done by women is often underestimated and not recognized as productive work.

Reason : Activities performed by women within their house are not paid for.

- (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
- (b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).
- (c) Assertion (A) is true but Reason (R) is false.
- (d) Assertion (A) is false but Reason (R) is true.

Ans :

- (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).

- 39. Assertion :** Less women are found in regular, salaried employment.

Reason : Jobs generally require skills and a high level of literacy.

- (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
- (b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).
- (c) Assertion (A) is true but Reason (R) is false.
- (d) Assertion (A) is false but Reason (R) is true.

Ans :

MAIN 2010

- (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).

- 40. Assertion :** There are more male workers in the primary sector.

Reason : Less female workers are employed in the secondary sector.

- (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
- (b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).
- (c) Assertion (A) is true but Reason (R) is false.
- (d) Assertion (A) is false but Reason (R) is true.

Ans :

DELHI 2015

- (c) Assertion (A) is true but Reason (R) is false.

4. The process in which the proportion of workers hired on a temporary basis increases over time, reducing job security and regular wages, is termed as _____.
- Informational
 - Casualization
 - Disguised unemployment
 - Seasonal unemployment

Ans :

FOREIGN 2010

- (b) Casualization

Casualization refers to the rising trend of hiring workers temporarily, depriving them of job security and social benefits.

5. The form of unemployment that occurs when the number of workers employed in a particular job or activity is much greater than required, leading to low productivity, is called _____ unemployment.
- Seasonal
 - Educated
 - Open
 - Disguised

Ans :

DELHI 2011

- (d) Disguised

Disguised unemployment exists when surplus workers do not contribute to increased productivity, which is common in rural agricultural activities.

6. The government scheme that ensures a minimum of 100 days of guaranteed wage employment for at least one member of every rural household in a financial year is called _____.
- REGP
 - MNREGA
 - SJSRY
 - SGSY

Ans :

SQP 2012

- (b) MNREGA

The Mahatma Gandhi National Rural Employment Guarantee Act provides guaranteed wage employment to reduce rural unemployment.

7. The organised sector of the economy, which includes government departments, public enterprises and private establishments that hire 10 or more workers, is referred to as the _____ sector.
- Formal sector
 - Informal sector
 - Secondary sector
 - Agricultural sector

Ans :

COMP 2013

- (a) Formal sector

The formal sector employs more than 10 workers and ensures job security, better wages and social protections for employees.

8. The type of unemployment observed in rural areas of India, caused primarily due to the seasonal nature of agricultural activities, where workers remain jobless during off-seasons, is called _____ unemployment.
- Open
 - Educated
 - Seasonal
 - Disguised

Ans :

OD 2014

- (c) Seasonal

Seasonal unemployment occurs in rural areas because agriculture, being seasonal, does not provide year-round employment.

9. The informal sector of the economy generally includes private enterprises that operate on a small scale and hire _____ workers, often without following government regulations or providing social security benefits.
- Skilled and trained
 - More than 10
 - Less than 10
 - Government-employed

Ans :

FOREIGN 2015

- (c) Less than 10

The informal sector consists of small establishments that hire fewer than 10 workers and lack regulatory oversight.

10. A person is said to be in a state of _____ when they are willing and able to work at the prevailing wage rate but fail to find employment opportunities.
- Employed
 - Underemployed
 - Unemployed
 - Self-employed

Ans :

DELHI 2016

- (c) Unemployed

Unemployment refers to individuals who are able and willing to work but cannot secure work at the current wage rate.

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- 11.** The economic phenomenon in which a country's economy grows, producing a higher volume of goods and services, without creating sufficient employment opportunities for the growing workforce is referred to as _____ growth.

- (a) Structural
- (b) Inclusive
- (c) Jobless
- (d) Seasonal

Ans :

SQP 2017

- (c) Jobless

Jobless growth occurs when the GDP increases but does not result in a proportional rise in employment opportunities.

- 12.** What does the term 'casualization of workforce' refer to, as mentioned in the content?

- (a) The increase in permanent and salaried jobs over time.
- (b) The rise in the percentage of casually hired workers in the total workforce.
- (c) The growth of self-employed individuals in urban areas.
- (d) The increase in formal employment opportunities in industries.

Ans :

DELHI 2023

- (b) The rise in the percentage of casually hired workers in the total workforce.

Casualisation occurs when more workers are hired temporarily without job security or regular wages, increasing casual employment.

- 13.** What is the primary reason for seasonal unemployment in rural areas, particularly in India?

- (a) Lack of modern irrigation facilities and heavy dependence on agriculture.
- (b) Rapid growth of urban industries and migration of rural workers.
- (c) Limited availability of vocational education and training.
- (d) Use of advanced technology in farming, reducing the need for workers.

Ans :

SQP 2020

- (a) Lack of modern irrigation facilities and heavy dependence on agriculture.

Seasonal unemployment arises in rural areas due to agriculture being a seasonal occupation, with work available only during certain times of the year.

- 14.** Under the Mahatma Gandhi National Rural Employment Guarantee Act (MNREGA), what is the main objective of the scheme for rural households?

- (a) Guaranteeing 100 days of employment to at least one member of each household annually.
- (b) Providing free skill-based training to rural youth for permanent employment.
- (c) Offering financial support to establish micro-enterprises and industries.
- (d) Ensuring vocational education for unemployed rural workers.

Ans :

FOREIGN 2021

- (a) Guaranteeing 100 days of employment to at least one member of each household annually.

MNREGA aims to reduce rural unemployment by guaranteeing work for 100 days (now extended to 150 days) for rural households to enhance livelihoods.

- 15.** Which sector employs the largest percentage of the urban workforce and what type of activities does it include?

- (a) Primary sector ; includes agriculture and forestry.
- (b) Secondary sector ; includes construction and manufacturing activities.
- (c) Tertiary or service sector ; includes trade, transport, education and healthcare.
- (d) Informal sector ; includes unregulated small enterprises.

Ans :

OD 2019

- (c) Tertiary or service sector; includes trade, transport, education and healthcare.

The service sector employs 58.3% of the urban workforce and includes trade, transport, education, healthcare and other professional services.

- 16.** What is the main difference between the formal sector and informal sector as described in the content?

- (a) Formal sector employs less than 10 workers, while informal sector employs more than 10 workers.
- (b) Formal sector provides job security and social benefits, while informal sector lacks these protections.
- (c) Formal sector is unregulated, while informal sector follows government rules.
- (d) Formal sector only includes agricultural activities, while informal sector includes services.

Ans :

DELHI 2020

(b) Formal sector provides job security and social benefits, while informal sector lacks these protections. The formal sector provides workers with job security, regular wages and social benefits, unlike the informal sector which lacks regulation and worker protection.

17. Which of the following best defines disguised unemployment as mentioned in the content?
- Workers are engaged in a job that requires fewer workers than those employed.
 - Unemployment due to seasonal nature of agricultural activities.
 - Educated individuals unable to find employment opportunities.
 - Workers unwilling to work at the prevailing wage rate.

Ans :

COMP 2019

(a) Workers are engaged in a job that requires fewer workers than those employed. Disguised unemployment refers to the presence of more workers than required, where their productivity adds no significant value.

18. What is the key focus of the Rural Employment Generation Programme (REGP) as highlighted in the content?
- Generating wage employment for rural households.
 - Creating self-employment opportunities by setting up small industries.
 - Providing direct financial assistance to farmers.
 - Offering training programs for rural youth.

Ans :

DELHI 2018

(b) Creating self-employment opportunities by setting up small industries. The REGP aims to promote self-employment by offering financial support to establish small industries, thus generating jobs in rural areas.

19. What are the two main kinds of unemployment prevalent in rural areas of India, as stated in the content?
- Educated unemployment and structural unemployment.
 - Open unemployment and disguised unemployment.
 - Seasonal unemployment and disguised unemployment.
 - Frictional unemployment and educated unemployment.

Ans :

SQP 2016

(c) Seasonal unemployment and disguised unemployment. Seasonal unemployment arises due to seasonal agricultural activities, while disguised unemployment occurs when more workers are employed than needed.

20. What is one of the major causes of unemployment in India as mentioned in the content?
- Rapid growth of vocational education and training.
 - Decline of cottage and small-scale industries leading to loss of employment.
 - Increase in self-employment opportunities in rural areas.
 - Adequate development of irrigation and modern technology.

Ans :

COMP 2019

(b) Decline of cottage and small-scale industries leading to loss of employment. The decline of traditional industries like cottage and small-scale industries has resulted in massive unemployment, particularly among artisans.

21. What is the significance of the worker-population ratio as described in the content?
- It shows the number of workers engaged in industrial activities.
 - It reflects the contribution of the population to the production of goods and services.
 - It measures the ratio of workers to agricultural productivity.
 - It calculates the percentage of casual workers in the workforce.

Ans :

OD 2000

(b) It reflects the contribution of the population to the production of goods and services. The worker-population ratio helps assess how much of the population is contributing to economic production.

22. What is the main focus of the Swarna Jayanti Shahari Rozgar Yojana (SJSRY)?
- Providing employment opportunities for self-employment and wage employment in urban areas.
 - Promoting agriculture and allied activities in rural areas.
 - Offering financial aid to farmers to improve crop production.
 - Ensuring employment in large-scale industries.

new entrants to the labour market.

3. Encouragement should be given to the small-scale sector.
4. Improvement in infrastructure facilities will enable agriculture and industrial sector to produce to their full capacity.
5. Special wage employment and self employment programs should be introduced.
6. Development of agricultural sector is important to increase labour productivity and total output.
7. The present educational system should be made more vocational and work oriented.
8. Measures like promotion of multiple cropping by expanding irrigation facilities, promotion of activities like animal husbandry, fisheries, etc., promotion of agro-based industries should be introduced to tackle the problem of seasonal unemployment.

13. EMPLOYMENT GENERATION PROGRAMMES

To address unemployment and generate sustainable livelihoods, several employment generation programs have been introduced by the government :

13.1 Swarna Jayanti Gram Swarozgar Yojana (SGSY)

The main objective of this scheme was to promote micro enterprises and to provide assistance to poor in self-help groups. This program has been reorganized into Deen Dayal Upadhyay Yojana (National Rural Livelihood Mission).

13.2 Rural Employment Generation Programme (REGP)

This program aims at creating self employment opportunities in urban areas. Under this program, one can get financial assistance in the form of bank loans to set up small industries that generate employment.

13.3 Swarna Jayanti Shahari Rozgar Yojana (SJSRY)

This scheme mainly aims at creating employment opportunities for both self employment and wage employment in urban areas. It is now called as Deendayal Upadhyay Yojana (National Urban Livelihood Mission).

13.4 Mahatma Gandhi National Rural Employment Guarantee Act 2005 (MNREGA)

Under this Act, work is guaranteed for one member of the household for 100 days in every financial year. The number of days has now been raised to 150.

MULTIPLE CHOICE QUESTION

1. What is meant by the term 'jobless growth' as discussed in the given content and how does it impact employment?
 - (a) Growth with an increase in agricultural employment.
 - (b) Growth in GDP without a proportional rise in employment opportunities.
 - (c) Growth in industrial output with rising unemployment.
 - (d) Growth in employment without GDP growth.

Ans :

COMP 2024

- (b) Growth in GDP without a proportional rise in employment opportunities.

Jobless growth occurs when the economy produces more goods and services without creating adequate employment opportunities for the workforce.

2. According to the data, what percentage of the rural workforce is employed in the primary sector and what does this include?
 - (a) 64.1%; it includes agriculture and allied activities.
 - (b) 20.4%; it includes mining and manufacturing activities.
 - (c) 58.3%; it includes trade, transport and services.
 - (d) 35%; it includes industries and construction.

Ans :

SQP 2023

- (a) 64.1%; it includes agriculture and allied activities.

The primary sector engages 64.1% of rural workers, primarily in agriculture, forestry, fishing and allied activities.

3. The sector where a majority of the rural workforce, about 64.1%, is engaged, primarily performing activities like agriculture, forestry and fishing, is known as the _____ sector.
 - (a) Secondary
 - (b) Primary
 - (c) Tertiary
 - (d) Informal

Ans :

OD 2023

- (b) Primary

The primary sector, which involves natural resource-based activities, employs most of the rural workforce in India.

29. Which employment generation program guarantees 100 days of wage employment in rural areas?

- (a) Swarna Jayanti Shahari Rozgar Yojana (SJSRY)
- (b) Mahatma Gandhi National Rural Employment Guarantee Act (MNREGA)
- (c) Rural Employment Generation Programme (REGP)
- (d) Swarna Jayanti Gram Swarozgar Yojana (SGSY)

Ans :

SQP 2007

(b) Mahatma Gandhi National Rural Employment Guarantee Act (MNREGA)

MNREGA guarantees 100 days (now extended to 150 days) of wage employment to rural households annually.

30. What is one key cause of rural unemployment in India, as described in the content?

- (a) Over-dependence on agriculture, which is seasonal in nature.
- (b) Growth of small-scale industries in rural areas.
- (c) Rapid increase in capital-intensive industries.
- (d) High availability of irrigation and infrastructure facilities.

Ans :

COMP 2008

(a) Over-dependence on agriculture, which is seasonal in nature.

Rural unemployment is caused by agriculture's seasonal nature, which cannot provide consistent year-round employment.

31. The scheme introduced to provide self-employment opportunities by offering financial assistance for setting up small industries in rural areas is known as _____.

- (a) Swarna Jayanti Gram Swarozgar Yojana (SGSY)
- (b) Swarna Jayanti Shahari Rozgar Yojana (SJSRY)
- (c) Rural Employment Generation Programme (REGP)
- (d) Mahatma Gandhi National Rural Employment Guarantee Act (MNREGA)

Ans :

COMP 2018

(c) Rural Employment Generation Programme (REGP)

REGP aims to create self-employment opportunities by providing financial support to

establish small-scale industries in rural areas.

32. Which of the following statements about the primary sector is correct?

- (a) The primary sector involves activities like manufacturing and construction.
- (b) About 64.1% of the rural workforce is engaged in the primary sector.
- (c) The primary sector primarily employs urban workers in India.
- (d) The primary sector deals only with service-related activities.

Ans :

OD 2019

(b) About 64.1% of the rural workforce is engaged in the primary sector.

The primary sector includes activities like agriculture, forestry and fishing, which employ a majority (64.1%) of the rural population.

33. Which of the following statements regarding seasonal unemployment is true?

- (a) Seasonal unemployment is mainly observed in industries in urban areas.
- (b) It occurs due to over-employment of workers in a particular job.
- (c) Seasonal unemployment is primarily associated with agriculture in rural India.
- (d) Seasonal unemployment arises because of technological advancements.

Ans :

FOREIGN 2020

(c) Seasonal unemployment is primarily associated with agriculture in rural India.

Seasonal unemployment occurs when workers are jobless during non-cropping seasons, particularly in agriculture-dependent rural areas.

34. Identify, which of the following is the correct formula for calculating 'Worker-Population Ratio'? (Choose the correct alternative)

- (a) $\frac{\text{Total Labour Force}}{\text{Total Population}} \times 100$
- (b) $\frac{\text{Total Workers}}{\text{Total Population}} \times 100$
- (c) $\frac{\text{Total Population}}{\text{Total Labour Force}} \times 100$
- (d) $\frac{\text{Total Population}}{\text{Total Workers}} \times 100$

Ans :

- (b) $\frac{\text{Total Workers}}{\text{Total Population}} \times 100$

it is predominantly associated with agriculture.

2.2 Disguised Unemployment

It is a situation in which the number of workers engaged in a job is much more than actually required to do it.

2.3 Educated Unemployment

It refers to unemployment among the educated people.

2.4 Open Unemployment

It refers to that economic phenomenon in which persons are able and willing to work at the prevailing wage rate, but fail to get work.

3. DISTRIBUTION OF EMPLOYMENT IN DIFFERENT SECTORS

In the course of economic development of a country, labour flows from agriculture and other related activities to industry and services. Generally, all economic activities are divided into the following eight different industrial divisions-

1. Agriculture
2. Mining and quarrying
3. Manufacturing
4. Electricity, gas and water supply
5. Construction
6. Trade
7. Transport and storage
8. Services

4. MAJOR SECTORS OF THE ECONOMY

For simplicity, all the working persons engaged in these divisions can be clubbed into three major sectors :

4.1 Primary Sector

This sector involves activities that directly use natural resources, such as agriculture, forestry, fishing and mining.

4.2 Secondary Sector

It includes industrial activities like mining, quarrying, manufacturing, construction and the generation of electricity, gas and water supply.

4.3 Tertiary or Service Sector

This sector focuses on providing services such as trade, transport, storage, communication, education, healthcare and other professional services.

5. DISTRIBUTION OF RURAL-URBAN EMPLOYMENT IN DIFFERENT SECTORS

The distribution of employment across sectors highlights the differences in economic activities between rural and urban areas. While rural areas rely heavily on agriculture, urban areas focus more on industries and services.

5.1 Employment in Rural Areas

The rural workforce in India is predominantly dependent on agriculture, with fewer opportunities in industrial and service sectors, reflecting limited diversification in employment.

1. **Primary Sector :** About 64.1% of the rural workforce is engaged in agriculture and allied activities.
2. **Secondary Sector :** Around 20.4% of rural workers are employed in industries like manufacturing and construction.
3. **Tertiary Sector :** Approximately 15.5% of rural workers are engaged in services such as trade, transport and education.

5.2 Employment in Urban Areas

Urban areas show a shift away from agriculture, with a strong focus on industrial and service-based employment opportunities, reflecting higher economic diversification.

1. Activities like agriculture or mining are not the major source of employment in urban areas.
2. The secondary sector gives employment to about 35% of urban workforce.
3. 58.3 percent of urban workers are engaged in the service sector.

5.3 Employment Opportunities for Men and Women in Different Sectors

1. Both men and women workers are concentrated in the primary sector, though the concentration of women worker's concentration is very high there.
2. Men get more opportunities of work in both secondary and service sector as compared to women.

6. GROWTH AND CHANGING STRUCTURE OF EMPLOYMENT

During the period 1950-2010, GDP of India grew positively and was higher than the employment growth. However, during this period, employment grew at the rate of not more than 2%.

41. Assertion : Casual labourers are most vulnerable in the society.

Reason : Casual labourers do not have a permanent earning facility and their earning varies a lot. They can even lose their jobs with a slight dip in the economic growth.

- (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
- (b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).
- (c) Assertion (A) is true but Reason (R) is false.
- (d) Assertion (A) is false but Reason (R) is true.

Ans :

COMP 2011

(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).

42. Assertion : Formal sector workers enjoy social security benefits.

Reason : The organized sector provides work to more than half of the total workforce.

- (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
- (b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).
- (c) Assertion (A) is true but Reason (R) is false.
- (d) Assertion (A) is false but Reason (R) is true.

Ans :

DELHI 2015

(c) Assertion (A) is true but Reason (R) is false.

43. Assertion : Informal sector uses outdated technology.

Reason : With the efforts of ILO, the Indian government has initiated the modernization of the informal sector.

- (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
- (b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).
- (c) Assertion (A) is true but Reason (R) is false.
- (d) Assertion (A) is false but Reason (R) is true.

Ans :

OD 2000

(b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).

44. Assertion : The government has never achieved the targeted economic growth rate.

Reason : Creation of employment opportunities could not keep pace with the additions to the labour force.

- (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
- (b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).
- (c) Assertion (A) is true but Reason (R) is false.
- (d) Assertion (A) is false but Reason (R) is true.

Ans :

COMP 2005

(d) Assertion (A) is false but Reason (R) is true.

45. Assertion : Rural women participate more in productive activities as compared to urban women.

Reason : Rural women workers always get paid in cash.

- (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
- (b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).
- (c) Assertion (A) is true but Reason (R) is false.
- (d) Assertion (A) is false but Reason (R) is true.

Ans :

MAIN 2010

(c) Assertion (A) is true but Reason (R) is false.

46. Assertion : The proportion of men is more in regular salaried employment.

Reason : Low level of skills and literacy along with lack of mobility among women reduce their chances of regular salaried employment.

- (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
- (b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).
- (c) Assertion (A) is true but Reason (R) is false.
- (d) Assertion (A) is false but Reason (R) is true.

Ans :

COMP 2017

(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).

- 47. Assertion :** Economic development of a country leads to labour flows from agriculture and other related activities to industry and service sectors.

Reason : Sector wise distribution of workforce helps us to know about the quality of employment.

- (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
- (b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).
- (c) Assertion (A) is true but Reason (R) is false.
- (d) Assertion (A) is false but Reason (R) is true.

Ans :

DELHI 2019

- (b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).

- 48. Assertion :** The agricultural and industrial sectors have not been able to create sufficient job opportunities.

Reason : Rapid increase in population has contributed significantly towards the growing unemployment in the country.

- (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
- (b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).
- (c) Assertion (A) is true but Reason (R) is false.
- (d) Assertion (A) is false but Reason (R) is true.

Ans :

OD 2009

- (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)

- (d) Both statements 1 & 2 are false.

- 50. Statement 1 :** As per National Sample Survey Organization (NSSO) unemployment is a situation in which all those who, owing to lack of work, are not working, but seeking work from prospective employers, expressed their willingness to work under the prevailing condition of work and remuneration.

Statement 2 : Disguised unemployment is generally a massive problem in the highly populated country like India.

- (a) Statement 1 is true & Statement 2 is false.
- (b) Statement 1 is false & Statement 2 is true.
- (c) Both statements 1 & 2 are true.
- (d) Both statements 1 & 2 are false.

Ans :

FOREIGN 2024

- (c) Both statements 1 & 2 are true.

- 51. Identify the correct combination of statements regarding rural unemployment :**

- (i) Rural unemployment includes seasonal and disguised unemployment.
- (ii) Seasonal unemployment occurs due to the seasonal nature of agriculture.
- (iii) Disguised unemployment occurs when more workers are employed than needed.
- (iv) Educated unemployment is most prevalent in rural areas.
- (a) Only (i), (ii) and (iii) are correct
- (b) Only (i) and (iv) are correct
- (c) Only (ii), (iii) and (iv) are correct
- (d) All statements are correct

Ans :

OD 2000

- (a) Only (i), (ii) and (iii) are correct
Rural unemployment includes seasonal and disguised unemployment. Educated unemployment is more common in urban areas, not rural regions.

STATEMENT BASED QUESTIONS

- 49. Statement 1 :** Casual workers are hired on a permanent basis and also get social security benefits.

Statement 2 : Workforce comprises, both employed and unemployed persons.

- (a) Statement 1 is true & Statement 2 is false.
- (b) Statement 1 is false & Statement 2 is true.
- (c) Both statements 1 & 2 are true.
- (d) Both statements 1 & 2 are false.

Ans :

OD 2024

- 52. Identify the correct combination of statements about the informal sector :**

- (i) The informal sector hires less than 10 workers.
- (ii) Workers in the informal sector have job security and social benefits.
- (iii) Most informal sector workers use outdated technology.
- (iv) Informal sector employment is unregulated by government laws.
- (a) Only (i), (iii) and (iv) are correct
- (b) Only (ii) and (iv) are correct
- (c) Only (i) and (iii) are correct
- (d) All statements are correct

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Ans :

FOREIGN 2001

(a) Only (i), (iii) and (iv) are correct
The informal sector hires fewer than 10 workers, uses outdated technology and operates without government regulation. Workers lack job security and benefits, making statement (ii) incorrect.

53. Which combination of statements about casualization of workforce is correct?

- (i) Casualization refers to the rise in temporarily hired workers over time.
- (ii) Casual workers enjoy regular income and social security benefits.
- (iii) Casualization reduces job security for workers.
- (iv) It increases the proportion of workers without permanent employment.
- (a) Only (i), (iii) and (iv) are correct
- (b) Only (ii) and (iv) are correct
- (c) Only (i) and (iii) are correct
- (d) All statements are correct

Ans :

DELHI 2002

(a) Only (i), (iii) and (iv) are correct
Casualization leads to more temporary workers, reducing job security. Casual workers do not enjoy regular income or social security, making statement (ii) incorrect.

54. Identify the correct combination of statements about the service sector in urban areas :

- (i) The service sector provides employment to 58.3% of urban workers.
- (ii) The service sector includes trade, transport, healthcare and education.
- (iii) The service sector provides fewer employment opportunities than agriculture in urban areas.
- (iv) The majority of workers in urban areas are engaged in service-related activities.
- (a) Only (i), (ii) and (iv) are correct
- (b) Only (ii) and (iii) are correct
- (c) Only (i) and (iii) are correct
- (d) All statements are correct

Ans :

SQP 2003

(a) Only (i), (ii) and (iv) are correct
The service sector employs the majority of urban workers (58.3%) and includes trade, healthcare and education. Statement (iii) is incorrect as the service sector provides more employment than agriculture in urban areas.

55. Identify the correct combination of statements about the primary sector :

Statements :

- (i) The primary sector includes agriculture, forestry and fishing.
- (ii) A large percentage of the rural workforce is employed in this sector.
- (iii) Urban areas depend heavily on the primary sector for employment.
- (iv) The primary sector directly uses natural resources.
- (a) Only (i), (ii) and (iv) are correct
- (b) Only (ii) and (iii) are correct
- (c) Only (i) and (iii) are correct
- (d) All statements are correct

Ans :

COMP 2004

(a) Only (i), (ii) and (iv) are correct
The primary sector relies on natural resources and employs a majority of rural workers. However, urban areas depend more on the secondary and tertiary sectors, making statement (iii) incorrect.

56. Which combination of statements about disguised unemployment is correct?

Statements :

- (i) Disguised unemployment is common in rural areas.
- (ii) It occurs when more workers are engaged than required for a job.
- (iii) Productivity remains unchanged despite extra workers.
- (iv) It is mainly observed in the industrial sector.
- (a) Only (i), (ii) and (iii) are correct
- (b) Only (ii) and (iii) are correct
- (c) Only (i) and (iv) are correct
- (d) All statements are correct

Ans :

OD 2005

(a) Only (i), (ii) and (iii) are correct
Disguised unemployment is mostly found in rural agricultural activities, where extra workers do not add to productivity. Statement (iv) is incorrect as it is not common in industries.

57. Identify the correct combination of statements about formal and informal workers :

- (i) Formal workers are employed in the organized sector.
- (ii) Informal workers lack job security and social benefits.
- (iii) The formal sector hires fewer than 10 workers.
- (iv) Informal workers are mostly found in unorganized small enterprises.
- (a) Only (i), (ii) and (iv) are correct
- (b) Only (i) and (iii) are correct
- (c) Only (ii) and (iv) are correct
- (d) All statements are correct

- 85.** Are the following workers – a beggar, a thief, a smuggler, a gambler? Why?

Ans : FOREIGN 2005

Individuals not contributing to activities included in GDP calculation cannot be classified as workers, as their efforts do not add value to the nation's economic output.

- 86.** Raj is going to school. When he is not in school, you will find him working in his farm. Can you consider him as a worker? Why?

Ans : DELHI 2006

Yes, Raj can be considered a worker because he contributes to the farm's total output, aligning with the definition of a worker as someone engaged in productive activities.

- 87.** Meena is a housewife. Besides taking care of household chores, she works in the cloth shop which is owned and operated by her husband. Can she be considered as a worker? Why?

Ans : SQP 2007

Meena, by working in a cloth shop and supporting her husband, contributes to the shop's output and the GDP. Thus, she qualifies as a worker under the economic definition.

- 88.** Define worker-population ratio.

Ans : COMP 2008

The worker population ratio represents the population actively involved in producing goods and services. It is calculated by dividing the total workforce by the total population and multiplying by 100, serving as an indicator to assess a country's employment level at a given time. It can be denoted in formula as :

Worker-Population Ratio

$$= \frac{\text{Total Workforce}}{\text{Total Population}} \times 100$$

- 89.** 'Kavya works on her family farm and is neither paid in cash nor in the form of grains.' Can she be categorized as a worker? Give valid reasons in support of your answer.

Ans : OD 2023

A worker is someone engaged in economic activities for a livelihood. Kavya, though unpaid, contributes to goods and services through her work on the family farm. Thus, she can be classified as self-employed.

- 90.** State with valid reason whether the following statement is true or false :

'Self employed workers are different from hired workers.'

Ans : FOREIGN 2023

The statement is true. Self-employed workers manage their own business or profession, such as a farmer on their farm. In contrast, hired workers are employed by others, providing services in exchange for wages or salaries, like a teacher working at a school.

- 91.** What is jobless growth?

Ans : DELHI 2009

This situation, known as jobless growth, occurs when an economy's GDP grows faster than employment opportunities, leading to unemployment despite economic expansion.

- 92.** Casual wage Labourer play a significant role in various economic activities, especially in agriculture and construction sectors. Who is a casual wage labourer?

Ans : SQP 2010

A casual wage labourer is a person who is hired for temporary work and paid wages on a daily or periodic basis without job security or formal employment benefits.

- 93.** What is structural unemployment?

Ans : COMP 2011

Structural unemployment arises from the economy's structural issues, such as a mismatch between labor supply and demand. For example, it occurs when labor supply exceeds demand due to a rapidly growing population and limited mobility.

- 94.** What is industrial unemployment?

Ans : OD 2012

This refers to industrial unemployment, where illiterate individuals seeking work in industries, mining, transport, trade and construction remain jobless due to insufficient labor demand.

- 95.** Define disguised unemployment.

Ans : FOREIGN 2020

Disguised unemployment occurs when more individuals are employed in a job than necessary, resulting in underutilization of labor without additional productivity.

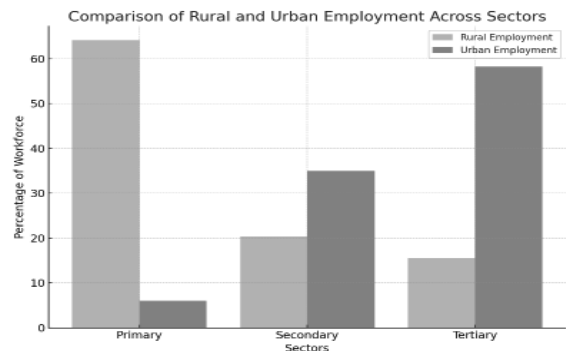
Ans :

DELHI 2023

(b) Rural employment is concentrated in the primary sector, while urban employment is concentrated in the tertiary sector.

The graph shows that 64.1% of the rural workforce is engaged in the primary sector (agriculture and allied activities), while 58.3% of the urban workforce is employed in the tertiary sector (services like trade, transport and education).

62. From the bar graph, which sector shows the smallest difference in employment distribution between rural and urban areas?



- (a) Primary Sector
(b) Secondary Sector
(c) Tertiary Sector
(d) None of the above

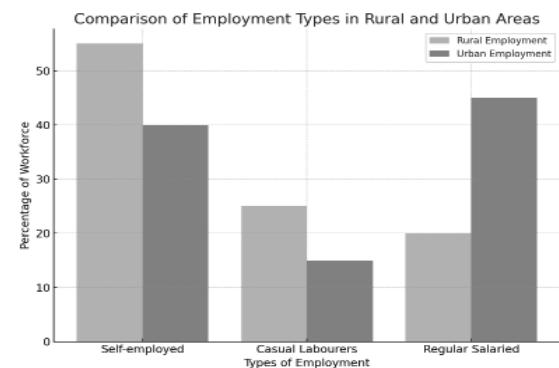
Ans :

FOREIGN 2022

(b) Secondary Sector

In the bar graph, the Secondary Sector shows the smallest difference. Rural employment in this sector is 20.4%, while urban employment is 35%, resulting in a difference of 14.6%. In contrast, the Primary and Tertiary sectors have significantly larger differences.

63. From the bar graph, which type of employment has the largest share in rural areas compared to urban areas?



- (a) Self-employed (b) Casual Labourer
(c) Regular Salaried (d) None of the above

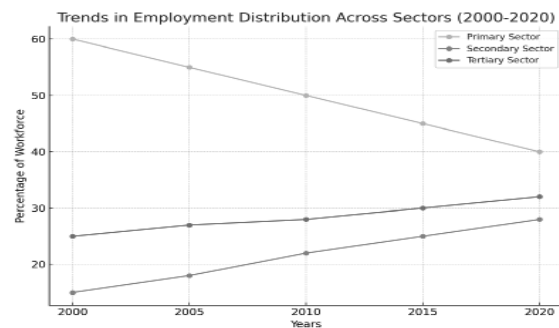
Ans :

OD 2021

(a) Self-employed

The bar graph shows that 55% of rural workers are self-employed, while only 40% of urban workers fall into this category. This highlights the dominance of self-employment in rural areas due to agriculture and small enterprises.

64. Based on the line diagram, which sector shows a consistent decline in employment share from 2000 to 2020?



- (a) Primary Sector
(b) Secondary Sector
(c) Tertiary Sector
(d) All sectors remain constant

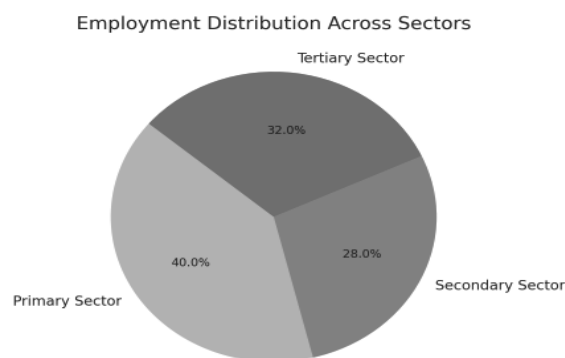
Ans :

SQP 2020

(a) Primary Sector

The line diagram shows that the Primary Sector experienced a consistent decline in employment share, dropping from 60% in 2000 to 40% in 2020, reflecting the shift of the workforce towards the secondary and tertiary sectors.

65. Based on the pie chart, which sector holds the largest share of employment in the current workforce distribution?



NODIA

opportunities, highlighting the challenge of jobless growth.

- 102.** Analyses the trends in sectoral distribution of work force in India on the basis of data :
Trends in Employment Pattern (Sector-wise), 1972-2012 (in %)

Sector	1972-1973	1983	1993-1994	1999-2000	2011-2012
Primary	74.3	68.6	64	60.4	48.9
Secondary	10.9	14.5	16	15.8	24.3
Tertiary	14.8	16.9	20	23.8	26.8
Total	100.0	100.0	100.0	100.0	100.0

Ans : FOREIGN 2020

The data reveals a decline in the workforce engaged in the primary sector, from 74% in 1972-73 to 48.9% in 2011-12. Conversely, the secondary sector workforce increased from 11% to 24.3% and the tertiary sector from 15% to 27% during the same period. These trends indicate structural changes in India's economy, with employment shifting from the primary sector to the secondary and tertiary sectors.

- 103.** What do you mean by supply of labour? Can the terms 'supply of labour and 'labour force' be used interchangeably?

Ans : COMP 2019

The supply of labor represents the amount workers are willing to offer at a specific wage rate, measured in man-days (8 hours of work equals one day). It is wage-dependent. In contrast, the labor force includes those currently employed and those available for work, encompassing people willing to work. Labor supply may vary without a change in worker numbers due to fluctuations in working man-days, whereas labor force changes only with shifts in the number of working or willing individuals. Thus, these terms are distinct and not interchangeable.

- 104.** What does casualization of workforce imply?

Ans : SQP 2015

Casualization of the workforce refers to the shift from self-employment and regular salaried jobs to casual wage work. This trend negatively impacts wages, job stability and employee social security benefits like provident funds due to the temporary

nature of such jobs. It also reflects employers' preference for temporary over regular or formal employment.

- 105.** "It is necessary to generate employment in the formal sector rather than the informal sector." Justify the given statement with valid arguments.

Ans : DELHI 2024

The formal sector, comprising public enterprises and private establishments with 10 or more workers, provides employees with social security benefits and labor law protection. Conversely, the informal sector lacks such benefits and government regulation. The priority should be job creation in both sectors. Once jobs are created, government policies can focus on regulating and improving conditions in the informal sector.

- 106.** Despite women contributing significantly to the workforce of the country, they are not considered as workers. Why?

Ans : SQP2022

Women constitute one-third of the rural work force and one-fifth of the urban workforce. They engage in activities like cooking, fetching water, gathering fuel wood, farm labor and household tasks, which are not considered productive work. These contributions are often unpaid, whether in cash or kind. As a result, women are not formally classified as workers. This lack of recognition leads to an underestimation of the actual number of women workers in the country.

- 107.** Compared to urban women, more rural women are found working. Why?

Ans : DELHI 2021

The female workforce participation in rural areas is about 30%, compared to 14% in urban areas. Key reasons include :

- Agricultural Work** : Agriculture and allied activities in rural areas do not require specialized skills, allowing rural women to contribute to family support through such jobs.
- Poverty** : Economic hardships in rural areas compel women to work and earn income for their families.
- Urban Income Levels** : Urban families generally have higher incomes, reducing the necessity for urban women to seek employment.

Seasonal unemployment refers to periods when workers, particularly in agriculture, lack work during non-harvest seasons.

ONE MARK QUESTIONS

71. What is employment?

Ans : FOREIGN 2023

It describes a situation where an individual is involved in productive economic activity to earn a living.

72. Mention the classification of workers.

Ans : DELHI 2021

Workers are categorized into two types : (i) Hired workers, comprising casual and regular workers and (ii) Self-employed workers.

73. Who are hired workers?

Ans : SQP 2012

Hired workers are individuals employed by others and compensated with daily wages for their labor.

74. Define self-employed.

Ans : COMP 2015

Self-employed workers are individuals who own and manage an enterprise to earn their livelihood.

75. Who is a worker?

Ans : OD 2022

A worker is a person engaged in productive economic activities, earning wages, salary, or profit.

76. Why is the bulk of our workforce rural based?

Ans : SQP 2011

This is primarily due to the majority of jobs being concentrated in rural areas.

77. Why is the proportion of men more in regular salaried employment?

Ans : OD 2000

More men hold regular salaried jobs because such employment demands skills and higher literacy levels, which are more prevalent among men.

78. Greater proportion of women workers are found in _____ (urban/rural) areas as a component of Indian work force.

Ans : COMP 2020

Rural.

79. Why is work participation of rural women more than urban woman?

Ans : FOREIGN 2018

A higher number of rural women work due to their poorer economic conditions compared to urban women.

80. What do you mean by formal sector establishments?

Ans : FOREIGN 2001

Formal sector establishments are public or private enterprises employing 10 or more hired workers.

81. If a construction site Manager hires two workers on daily wage basis, such a situation is covered under _____ (formal/informal) sector. (Fill up the blank with correct alternative)

Ans : DELHI 2020

Informal

82. How is the number of unemployed estimated?

Ans : SQP 2003

Unemployment is calculated using the formula :
Number of persons unemployed = Labour force - Work force.

83. Define occupational structure.

Ans : COMP 2004

The distribution of the workforce among primary, secondary and tertiary sectors is known as the occupational structure.

TWO MARK QUESTIONS

84. Define Casual Wage Labourer.

Ans : OD 2024

Workers engaged in part-time or irregular jobs are called casual workers. They lack permanent employment and benefits like gratuity or provident funds. This group largely includes unskilled laborers.

- (a) Primary Sector
- (b) Secondary Sector
- (c) Tertiary Sector
- (d) All sectors have equal share

Ans :

COMP 2019

- (c) Tertiary Sector

The pie chart shows that the Tertiary Sector holds the largest employment share at 32%, followed by the Primary Sector at 40% and the Secondary Sector at 28%. This indicates the growing importance of service-based employment.

PASSAGE BASED QUESTION

- 66.** Gross Domestic Product (GDP) is the total monetary value of all goods and services produced within a country's borders in a year. It is a key indicator of economic performance.

What does GDP measure?

- (a) Total monetary value of all imports and exports
- (b) Total monetary value of all goods and services produced in a year
- (c) Total income of citizens, including foreign earnings
- (d) The average income per citizen

Ans :

OD 2000

- (b) Total monetary value of all goods and services produced in a year

GDP represents the total value of goods and services produced within a country's borders annually, excluding foreign transactions.

- 67.** Unemployment occurs when a person is able and willing to work at the prevailing wage rate but cannot find a job. Open unemployment is one type where individuals are actively seeking work but remain jobless.

What is open unemployment?

- (a) A situation where people are not willing to work
- (b) Workers employed in seasonal activities
- (c) People actively seeking jobs but unable to find work
- (d) Individuals engaged in informal sector jobs

Ans :

FOREIGN 2001

- (c) People actively seeking jobs but unable to find work

Open unemployment describes the condition where individuals are ready to work but fail to secure employment.

- 68.** The worker population ratio helps understand the proportion of the population contributing to a country's production of goods and services. It highlights the active workforce.

What does the worker population ratio indicate?

- (a) The ratio of rural to urban workers
- (b) The proportion of the population engaged in economic activities
- (c) The total unemployment rate in a country
- (d) The number of people working in the informal sector

Ans :

DELHI 2002

- (b) The proportion of the population engaged in economic activities

The worker population ratio shows the percentage of the population involved in economic production activities.

- 69.** The primary sector includes activities directly using natural resources, such as agriculture, forestry, fishing and mining. It is a major source of employment in rural areas.

Which of the following activities is part of the primary sector?

- (a) Manufacturing goods
- (b) Transport and communication services
- (c) Fishing and agriculture
- (d) Construction work

Ans :

SQP 2003

- (c) Fishing and agriculture

The primary sector involves natural resource-based activities like farming, forestry and fishing.

- 70.** Seasonal unemployment is common in agriculture when work is available only during specific times of the year, leaving workers jobless during the off-season.

What is seasonal unemployment?

- (a) Lack of jobs during economic downturns
- (b) Joblessness during off-seasons in certain activities
- (c) Unemployment due to a lack of vocational skills
- (d) A situation where too many workers share the same job

Ans :

COMP 2004

- (b) Joblessness during off-seasons in certain activities

THREE MARK QUESTIONS

96. Why is nature of employment in India considered multifaceted?

Ans :

COMP 2024

Employment in India is diverse. Some individuals work year-round, while others find jobs only for a few months annually. Many workers, though employed, face the challenge of not receiving fair wages for their efforts. These variations highlight the multifaceted nature of employment in India.

97. How is worker-population ratio an indicator for analyzing the employment situation in the country?

Ans :

OD 2024

The ratio indicates the share of the population actively contributing to a country's production of goods and services. A higher ratio signifies greater engagement in productive activities, whereas a medium or low ratio suggests that a significant portion of the population is not directly involved in economic activities.

98. Distinguish between regular salaried employees and casual wage workers.

Ans :

DELHI 2002

S. No	Regular Salaried Employees	Casual Wage Workers
1.	When a worker is engaged by someone or by an enterprise and is paid wages on a regular basis, then such a worker is known as a regular salaried employee.	Workers who are casually engaged and in return get remuneration for the work done are termed as casual wage workers.
2.	They are hired on a permanent basis.	They are hired on temporary basis.
3.	They enjoy social security benefits like pension, provident fund, etc.	They do not enjoy social security benefits, job security, etc.
4.	Regular workers account for just 18% of India's workforce.	Casual workers account for 30% of India's workforce.

99. Distinguish between self employment and wage employment.

Ans :

SQP 2003

S.No	Self Employment	Wage Employment
1.	It is an arrangement in which worker uses his own resources to make a living.	It is an arrangement in which a worker sells his labour and earns wages in return.
2.	In case of self employment, a person makes use of his own land, labour, capital and enterprise.	In case of wage employment, workers do not have any other resource (land, capital and enterprise), except their own labour.
3.	E.g. Shopkeepers, traders, businessmen, etc.	E.g. : A doctor employed by a hospital.

100. "In a nation like India, self employment provides an important avenue for employment generation." Defend or refute the given statement with valid arguments.

Ans :

OD 2000

Self-employment involves working independently rather than for an employer. It plays a crucial role in India's employment generation, particularly in the informal sector. Self-employment offers independence, potential for higher earnings and creative freedom. Additionally, self-employed individuals not only secure livelihoods for themselves but also create job opportunities for others by running enterprises.

101. In the late 1990's India experienced a widening gap between the growth of GDP and employment generation." Discuss.

Ans :

DELHI 2015

Jobless growth refers to an economic condition where the economy grows, but employment levels either remain stagnant or decline. In simpler terms, it indicates a situation where economic expansion generates minimal job opportunities, leaving many qualified individuals unemployed. Despite being among the fastest-growing economies, India faces a severe job shortage. This means the Gross Domestic Product (GDP) grows without a proportional increase in employment

Ans :

FOREIGN 2006

- (a) Only (i), (ii) and (iv) are correct

Formal workers are employed in the organized sector with job security, while informal workers lack these benefits. Statement (iii) is incorrect because the formal sector hires 10 or more workers.

- 58.** Which combination of statements about unemployment in India is correct?

- (i) Seasonal unemployment is predominantly seen in agriculture.
- (ii) Educated unemployment is mainly prevalent in urban areas.
- (iii) Disguised unemployment reduces overall productivity.
- (iv) Rural unemployment only includes educated unemployment.
- (a) Only (i), (ii) and (iii) are correct
- (b) Only (i) and (iv) are correct
- (c) Only (ii) and (iii) are correct
- (d) All statements are correct

Ans :

DELHI 2007

- (a) Only (i), (ii) and (iii) are correct

Seasonal and disguised unemployment are common in rural areas, while educated unemployment is prevalent in urban areas. Statement (iv) is incorrect as rural unemployment includes disguised and seasonal unemployment.

- 59.** Identify the correct combination of statements regarding employment in rural areas :

- (i) A majority of rural workers are engaged in the primary sector.
- (ii) Rural employment opportunities are higher in the secondary sector.
- (iii) About 20.4% of rural workers are engaged in industries like manufacturing and construction.
- (iv) Rural employment in the service sector is around 15.5%.
- (a) Only (i), (iii) and (iv) are correct
- (b) Only (i) and (ii) are correct
- (c) Only (ii), (iii) and (iv) are correct
- (d) All statements are correct

Ans :

SQP 2008

- (a) Only (i), (iii) and (iv) are correct

The majority of rural workers are employed in the primary sector, while 20.4% are in the secondary sector and 15.5% are engaged in the service sector. Statement (ii) is incorrect as secondary sector opportunities are fewer.

- 60.** Which combination of statements about employment opportunities for men and women is correct?

- (i) Both men and women workers are highly concentrated in the primary sector.
- (ii) Women have more opportunities in the secondary sector compared to men.
- (iii) Men get more opportunities in both secondary and service sectors.
- (iv) Women's concentration in the primary sector is significantly higher than men's.
- (a) Only (i), (iii) and (iv) are correct
- (b) Only (ii) and (iii) are correct
- (c) Only (i) and (ii) are correct
- (d) All statements are correct

Ans :

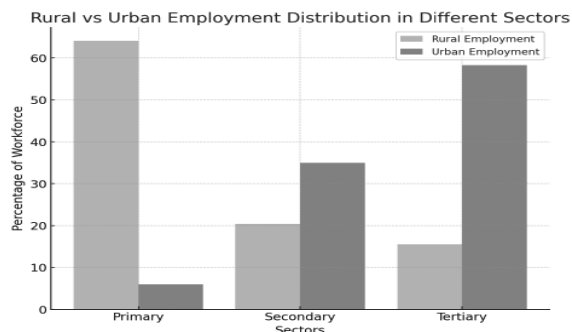
COMP 2009

- (a) Only (i), (iii) and (iv) are correct

Both men and women are concentrated in the primary sector, but men dominate in the secondary and service sectors. Women's employment in the primary sector is much higher compared to men's. Statement (ii) is incorrect as women have fewer opportunities in the secondary sector.

GRAPH BASED QUESTIONS

- 61.** Based on the bar graph, what is the key difference between rural and urban employment distribution across the sectors?



- (a) Rural employment is highest in the secondary sector, while urban employment is highest in the primary sector.
- (b) Rural employment is concentrated in the primary sector, while urban employment is concentrated in the tertiary sector.
- (c) Both rural and urban employment are equally distributed across all three sectors.
- (d) Urban employment is highest in agriculture, while rural employment is focused on trade and services.

- 108.** Elaborate any two reasons owing to which lesser number of women are found in regular salaried employment.

Ans : OD 2018

Fewer women engage in regular salaried employment due to :

- (i) Limited Education : Female education is often undervalued in India, leaving many women without the necessary qualifications or skills for professional jobs.
- (ii) Family Discouragement : Many families discourage women from working outside the home, especially in jobs requiring long hours, as typical in regular salaried positions.

- 109.** Discuss the various reasons for lower women participation in work.

Ans : FOREIGN 2017

Women, especially in urban areas, have low workforce participation due to :

- (i) Lagging Education : Limited access to education restricts job opportunities for women.
- (ii) Family Decisions : Urban families often decide against allowing women to work, despite available opportunities.
- (iii) Rural Poverty : Higher rural participation stems from poverty, but women there are involved in low-paying, less productive jobs.
- (iv) Unrecognized Activities : Household tasks like cooking and care giving are not classified as productive economic activities, reducing their formal workforce recognition.

- 110.** Victor is able to get work only for two hours in a day. Rest of the day, he is looking for work. Is he unemployed? Why? What kind of jobs could persons like Victor is doing?

Ans : FOREIGN 2012

Victor is not an unemployed worker. But he is working only two hours a day which is not sufficient enough to be considered as a full time worker. As per statistics by National Sample Survey, one who works for 28 hours a week is said to be underemployed. The works that Victor could be doing can include delivering newspaper, working in a restaurant, courier delivery boy and teller in bank.

- 111.** What is jobless growth? Why is it not considered good for an economy?

Ans :

DELHI 2016

Jobless growth occurs when an economy produces more goods and services without a proportionate rise in employment opportunities. It signifies GDP growth without corresponding job creation, leading to increased income inequality and limited opportunities. This imbalance is detrimental to the economy as it widens disparities and restricts inclusive growth.

- 112.** Why is casualization of workforce increasing?

Ans :

COMP 2014

The rise in workforce casualization is attributed to :

- (i) Slow Organized Sector Growth : Limited expansion of employment in the organized sector.
- (ii) Cost-Cutting Retrenchment : Industries reducing workforce to lower production costs.
- (iii) Privatization and Disinvestment : Reduction in public sector jobs due to economic reforms.
- (iv) Shift by Small Farmers : Small and marginal farmers turning to casual work for alternate livelihoods.

- 113.** What type of unemployment exists in rural areas? What are the main reasons responsible for it?

Ans :

SQP 2011

Disguised and seasonal unemployment are the two types of unemployment which exist in rural areas. Disguised unemployment occurs when more people are engaged in a job than required. Whereas seasonal unemployment occurs when people engaged in seasonal activities like agriculture become unemployed during off season. The main factors responsible for rural unemployment of this type are :

- (i) Lack of alternate employment opportunities compels people to continue working on family farms.
- (ii) Workers engaged in other seasonal activities like sugarcane crushing etc. are engaged in work only for a few months in a year.
- (iii) Lack of irrigation facilities have prevented multiple cropping because of which a farmer who grows one crop in a year usually remains unemployed for a few months.

- 114.** What is informational of workforce? Discuss the factors responsible for it.

Ans :

OD 2013

- 133.** Read the paragraph given below and answer the questions that follow :

In-formalization of labour : Only half and sometimes less than half of the urban population finds employment in factories or similar organizations. Rest all are engaged in 'informal' economic activities which are casual, unskilled, without fixed working hours, low income and nature of work largely fluctuating and seasonal. Several studies and reports have come out in the last twenty years, which depict the miserable working conditions of India's informal sector workers. While workers in the informal sector contribute a considerable amount of output to the country's GDP, the conditions under which they work are usually deplorable. More than 70 percent of the non-agricultural labour force is in informal employment. If we include agriculture into this, it will be over 90 percent. Work in the informal sector is so common today that it is almost a norm. Today, due to policies of globalization, facilitated by advances in technology, labour is losing its formal and organized character. Workers are divided into two groups, who are employed and who are in the reserve army of labour, willing to do anything to obtain employment. Large number of workers in India, who form this reserve army, miserably wander to and fro between cities, towns and villages, living in different phases of employability in seasonal cycles.

- (i) Following is an advantage of working in a formal sector.
- Job security
 - Low wages
 - Saved from the hassle of paying tax
 - Closed and direct relationship with the employer.

- (ii) Match the following :

	Column I		Column II
1.	Seasonal Unemployment	A.	Private enterprises which hire less than 10 workers
2.	Primary sector	B.	when a worker uses his own resources to make a living
3.	Unorganized sector	C.	Unemployment occurring in certain seasons

4.	Selfemployment	D.	Agriculture, mining and quarrying
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- D, A, B, C
- C, A, B, D
- B, A, C, D
- C, D, A, B

- (iii) From the following, identify the factor which is not responsible for causing unemployment in the economy :

- Defective educational system
- Underdeveloped agriculture
- Creation of self employment opportunities
- Low capital formation

- (iv) _____ Refers to a situation whereby the proportion of workforce in the informal sector to total workforce increases.

- Jobless growth
- Casualization of workforce
- informational of workforce
- both (a) and (b)

Ans :

- (a) Job security
- (d) C, D, A, B
- (c) Creation of self employment opportunities
- (c) informational of workforce

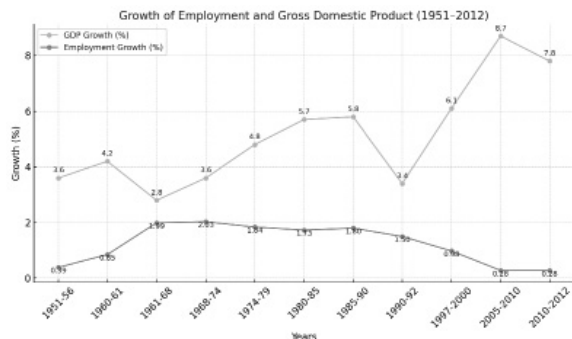
- 134.** Read the paragraph given below and answer the questions that follow :

India is still not out of the woods as far as unemployment is concerned since the lock-down was imposed to contain the spread of deadly COVID-19 on March 25, 2020 as pandemic-induced job loss has not tapered off consistently. The government had imposed a lock-down to curb the spread of the pandemic but this impacted economic and commercial activities and resulted in job loss and later on the exodus of migrant workers which rocked the entire nation.

The experts are of the view that the farm sector has done well which engages over 55 per cent of the country's population but there is a need for improvement in hiring in urban and industrial areas. They opined that the government has taken many steps to boost fresh hiring in the country but repeated policy interventions and monitoring of existing schemes and initiatives at the ground level are required to achieve consistent improvement in the employment scenario in the country.

FOUR MARK QUESTIONS

120. Study the following chart of Employment and Gross Domestic Product. Analyses the trend of the two variables between 1990-2012.



Ans :

SQP 2024

The period from 1990 to 2012 marked a significant phase for the Indian economy, with the Gross Domestic Product (GDP) growth rate rising substantially from 3.4% in 1990 to 7.8% in 2012. In contrast, the employment growth rate during this time experienced a steady decline, dropping from 1.5% to 1.12%.

India witnessed a peculiar phenomenon known as jobless growth, where GDP expanded rapidly without a corresponding increase in employment opportunities. For instance, between 2005 and 2010, the employment growth rate was a mere 0.28%, while GDP soared at an impressive 8.7%. Overall, the period saw considerable fluctuations in GDP and employment growth rates.

121. Discuss the problems being faced by the informal or unorganized sector.

Ans :

COMP 2023

The informal sector encompasses private enterprises employing fewer than 10 workers, with individuals working in this sector termed informal sector workers. Examples include farmers, agricultural laborers and small enterprise owners. In India, over 90% of employment falls under this unorganized sector.

The challenges faced by this sector are numerous :

- Irregular income for workers and enterprises.
- Lack of government protection or regulation.
- Absence of job security, with workers subject to dismissal without compensation.
- Many workers reside in slums or as squatters.
- Reliance on outdated technology.

- No practice of maintaining formal accounts.

122. What are the main causes for the ever increasing unemployment problem in India?

Ans :

FOREIGN 2012

Unemployment is a significant global issue affecting countries regardless of their development levels. In India, its persistence can be attributed to several factors :

- Slow Economic Growth :** Employment generated through five-year plans has not matched the growing labor force.
- Population Growth :** With over 1.3 billion people, India's burgeoning population exerts immense pressure on resources, causing widespread unemployment.
- Underdeveloped Agriculture :** High population density on land and outdated farming practices result in rural unemployment.
- Insufficient Irrigation :** Lack of irrigation limits multiple cropping, leading to seasonal unemployment in rural areas.
- Industrial Growth Lag :** Limited capital has hampered industrial employment generation.
- Flawed Education System :** Inadequate technical and vocational training increases unemployment among the educated.
- Decline of Cottage Industries :** Modern industry emergence has caused the decay of traditional small-scale enterprises, leaving many jobless.
- Labor Mobility Issues :** Social constraints hinder migration for better opportunities, heightening unemployment.
- Caste System :** Discriminatory caste-based work allocation prevents equitable employment distribution.
- Seasonal Agriculture :** Indian agriculture's seasonal nature leaves workers unemployed for significant portions of the year.

123. (i) Define Worker Population Ratio. Discuss its usefulness.

or

Define worker-population ratio. What does it signify?

- 'Mr. Rishi, after completing his education, has joined his family business but his marginal productivity is zero.'

Comment upon the employment status of Mr. Rishi. Give valid reasons in support of your answer.

workforce, half work in agriculture and the remaining in non-agricultural sectors. Of the 40% non-agricultural informal sector workers, about half live in rural India and the remaining in urban India. Meanwhile, almost all of the 40% agricultural informal sector workers live in rural India. Of the 20% formal sector labour force, 8% are employed in the industrial sector and 12% in services (of which about half is public services). About two-thirds of the rural workforce are in agriculture and almost all are informally employed. The second wave hit rural India hard. Rural sentiment fell sharply, but has begun to recover since. Wages, the main source of income for the landless, have been resilient over 2020-21, led by good monsoons and elevated reservoir levels. It helped that agricultural production and distribution were exempt from the various lock-downs and being 'essential', the demand for food remained robust. Recently, domestic demand has been accompanied by strong foreign demand. Agricultural exports have been on the rise. Alongside, the government has raised social welfare spending in rural India over the last year, which has propped up incomes.

- (i) In 2020 and 2021, there has been a rural growth of
- 30%
 - 25%
 - 33%
 - 31%
- (ii) Following is not a reason for casualization of workforce :
- Formation of special economic zones
 - Slow growth of employment in organized sector
 - Growing demand for casual labour in expanding construction trade and services
 - Shifting of status of small and marginal farmers into casual workforce due to decreasing scope of earnings from agricultural activities
- (iv) Which type of unemployment exists in the rural areas?
- Disguised unemployment
 - Seasonal unemployment
 - Educated unemployment
 - Both (a) and (b)

(iii) Match the following :

	Column I		Column II
1.	Activity undertaken for monetary gain	A.	Decay of Cottage and small scale industries
2.	One who uses his own resources to make a living	B.	Informational of workforce
3.	Reason for unemployment	C.	Self employed
4.	When proportion of workforce in the informal sector increases over time	D.	Economic activity

- D, C, A, B
- D, A, B, C
- A, B, D, C
- B, A, D, C

Ans :

- (c) 33%
- (a) Formation of special economic zones
- (d) Both (a) and (b)
- (a) D, C, A, B

NODIA 137

137. Read the paragraph given below and answer the questions that follow :

Female labour participation rate in India fell to 16.1% during the July-September 2020 quarter, the lowest among the major economies, a government report said, reflecting the impact of pandemic and a widening job crisis. The percentage of women in the labour force had fallen to a record low of 15.5% during the April-June 2020 quarter, when India imposed strict lockdown to curb the spread of COVID-19 virus, said the report, released late Monday by the Ministry of Statistics.

According to World Bank estimates, India has one of the lowest female labour force participation rates in the world. Less than one third of women – defined in the report as 15 or older – are working or actively looking for a job.

Most employed women in India are in low-skilled work, such as farm and factory labour and domestic help, sectors that have been hit hard by the pandemic. The unemployment rate among women touched 15.8%, compared with 12.6% among male workers during three months that ended in September 2020, the latest quarter for which data was released.

Industrialization fosters modernization and provides more stable employment opportunities than those available in the primary sector. Recognizing this, policymakers prioritized industrial development, aiming to transition surplus agricultural workers to industries and enhance their living standards. However, as the nation progressed, the expansion of the formal sector fell short of expectations, adversely affecting the quality of employment.

Despite years of service, workers in the informal sector remain deprived of maternity benefits, provident funds and other social security provisions. Additionally, informal sector workers earn significantly less compared to their formal sector counterparts for performing similar jobs. Notably, only 6% of the workforce is employed in the formal sector, leaving 94% in the informal sector.

Distribution of workforce in Formal and Informal Sectors

Sector	No. of workers (in crores)	% of workers
Formal	3	6.3
Informal	44.3	93.7
Total	47.3	100

- 127.** Why has the Indian government started paying attention to enterprises and workers in the informal sector and initiated their modernization?

Ans :

OD 2011

Addressing the needs of the informal sector has been a long-overdue priority. Recently, the government has begun focusing on this sector for several key reasons :

- The formal sector's inability to generate sufficient employment has compelled attention toward informal enterprises and workers.
- A significant portion of the workforce remains employed in the informal sector, but these enterprises rely on outdated technology.
- Informal sector workers lack government protection and regulation.
- Workers in this sector often face irregular incomes and can be dismissed without compensation.

With the support of the International Labour Organization (ILO), the Indian government has initiated efforts to modernize informal enterprises and implement social security measures for their workers.

- 128.** Discuss any three causes of unemployment in India. State the most common types of unemployment found in India.

Ans :

DELHI 2019

Causes of Unemployment in India :

- Caste System** : The caste system remains deeply ingrained in India's social and economic structure, particularly in rural and backward areas. Certain types of work are still restricted to specific communities, often neglecting skills and experience. This leads to widespread unemployment by limiting equitable work distribution.
- Population Growth** : With a population exceeding 1.3 billion and projected to surpass China by 2024, India faces immense pressure on its resources. Rapid population growth outpaced economic development, leaving a significant portion of the population unemployed.
- Seasonality in Agriculture** : Agriculture, a major source of employment, is inherently seasonal. Workers are employed during peak times, like the harvest season, but remain jobless for large parts of the year.

Common Types of Unemployment in India

- Disguised Unemployment** : Found mainly in rural agriculture, this occurs when more people are employed than necessary, leading to zero or negligible additional productivity. For example, a farm requiring four workers employs eight, making the extra four effectively unemployed.
- Seasonal Unemployment** : This arises in industries or activities with seasonal demand. For instance, agricultural laborers are needed during harvest but face unemployment in off-season periods.
- Open Unemployment** : A visible form of unemployment where individuals willing and able to work cannot find jobs. It is quantifiable in terms of the number of people actively seeking work but remaining jobless.

- 129.** Discuss the various economic and social consequences of the existing unemployment problem in India.

Ans :

SQP 2018

Unemployment has severe economic and social consequences, as outlined below :

Economic Effects :

- (i) Decline in Production and Income : Unemployment prevents optimal use of human resources, leading to reduced output and income levels.
- (ii) Poverty : Unemployed individuals do not contribute to the national income, increasing poverty as they struggle to meet basic needs.
- (iii) Low Capital Formation : Insufficient income limits savings and investments, hampering capital formation and economic growth.
- (iv) Low Productivity : Disguised unemployment, especially in agriculture, lowers productivity and slows the economy's growth rate.

Social Effects :

- (i) Reduced Standard of Living : Unemployment deprives individuals of the means to maintain a dignified quality of life.
- (ii) Income Inequality : Higher unemployment exacerbates income and wealth disparities.
- (iii) Social Unrest : Persistent poverty fosters desperation, leading to theft, fraud and other crimes.

Unemployment is thus a significant social issue, fostering inequality and unrest within society.

- 130.** In India, due to increase in labour force at a fast pace as compared to employment growth rate, the number of people remaining unemployed has increased over time. How can this problem be solved?

Ans :

COMP 2017

To address unemployment in India, the following measures can be implemented :

1. Accelerating GDP Growth : Boosting GDP through increased production in agriculture and industry, along with promoting small and cottage industries, is crucial to creating jobs.
2. Higher Capital Formation : Investments should focus on sectors with high employment potential to enhance the rate of capital formation.
3. Infrastructure Development : Improving facilities like irrigation, electricity, roads and healthcare is vital for economic growth and optimizing the agricultural and industrial sectors.
4. Labour-Intensive Technology : Encouraging labour-intensive over capital-intensive technology will create more jobs.
5. Employment-Focused Programs : Initiatives like irrigation and road construction projects, along with wage and self-employment

programs, should be prioritized in economic plans.

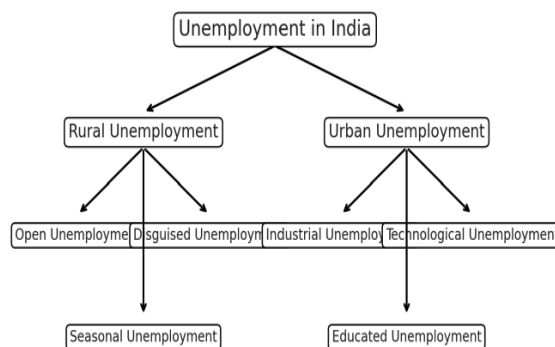
6. Population Growth Control : Managing population growth ensures that job creation meets the demands of the labor market.
7. Support for Small-Scale Enterprises : Providing concessional loans, raw materials and infrastructure for small enterprises can stimulate job creation.
8. Educational Reforms : The education system should emphasize vocational training and job-oriented skills to equip the unemployed with practical expertise.

- 131.** Explain the various types of unemployment.

Ans :

OD 2016

Various types of Unemployment are as follows :



Types of Unemployment

- (i) Rural Unemployment: Rural unemployment occurs in villages and is of the following types :
 - (a) Seasonal Unemployment : Found in industries with seasonal demand, like agriculture. For instance, workers are needed during the harvest but remain unemployed in other months.
 - (b) Disguised Unemployment : Common in agriculture, where surplus workers contribute little to productivity. For example, 8 family members working on a farm where only 4 are needed leads to disguised unemployment.
 - (c) Open Unemployment : Occurs when individuals willing and capable of working cannot find full-time employment.
- (ii) Urban Unemployment occurs in cities and includes :
 - (a) Industrial Unemployment : Affects unskilled workers seeking jobs in industries like mining, construction,

or transportation but failing due to insufficient skills.

- (b) **Educated Unemployment** : Affects qualified individuals whose education does not align with available jobs. Causes include a flawed education system, lack of skills and preference for formal or white-collar jobs.
- (c) **Technological Unemployment** : Results from technological advances that replace workers with machines, such as improved manufacturing techniques or labor-saving devices.

CASE BASED QUESTION

- 132.** Read the paragraph given below and answer the questions that follow :

Indian poverty persists not only due to insufficient economic activity but also due to the presence of a large unorganized sector. In 2018, only 50% of the Indian population participated in the labour force, 81% of which was employed in the informal sector, also known as the unorganized sector. Although the informal sector is accredited with the absorption of large masses of workers that would otherwise remain unemployed due to the absence of formal-sector opportunities, the reprieve provided by it is detrimental to the country's developmental progress. The informal segment of the economy is responsible for maintaining India's unequal status quo. The informal sector consists of enterprises which are labour-intensive. Low-skilled labourers who are desperate enough to work for miserly wages in order to meet their subsistence requirements largely constitute the labour force of unorganized economic activities. Since unorganized firms operate outside of the jurisdiction of corporate law, workers in their employment are assured of neither job-security nor social protection. Owing to the nation's mammoth population, an oversupply of menial labour is paving the way for easy exploitation on the part of unconscionable entrepreneurs.

The expendable nature of the unorganized labour force causes wages to remain at minimal levels, sometimes lower than the legal minimum. Also, the prices of products and services produced by these workers usually do not rise in sync with the rate of inflation, further adding to their despair.

Workers are unable to improve their work-expertise in such a paradigm and are deprived of career growth opportunities and finally are bereft of the capacity to accumulate significant savings. In this manner, they are further excluded from the main economy due to their inability to save and invest.

- (i) From the following, identify the challenges being faced by the informal sector :
 - (a) Low wages and unstable employment
 - (b) Protection through labour laws
 - (c) Entitlement to social security benefits
 - (d) Conducive working environment
- (ii) Under _____ type of unemployment marginal product gained by employing one additional unit of labour is zero :
 - (a) Disguised
 - (b) Seasonal
 - (c) Educated
 - (d) Underemployment
- (iii) A construction site manager hires 2 workers on a daily basis : such a situation is covered under _____ (formal/informal) sector.
- (iv) Match the following column and choose the correct option.

	Column I		Column II
1.	Work force	A.	irregular income
2.	Informal workers	B.	include both employed as well as unemployed persons
3.	Labour Force	C.	persons who are actually engaged in economically productive activities
4.	Formal workers	D.	can form trade unions

- (a) A, C, B, D
- (b) C, A, B, D
- (c) D, B, A, C
- (d) D, C, B, A

Ans :

- (i) (a) Low wages and unstable employment
- (ii) (a) Disguised
- (iii) Informal
- (iv) (b) C, A, B, D

Ans :

COMP 2020

- (i) Worker Population Ratio measures the share of the population actively involved in producing goods and services. It indicates the employment situation, where a higher ratio reflects greater economic activity, while a medium or low ratio suggests limited direct participation in productive activities.

Worker Population Ratio :

$$= \frac{\text{Total number of workers}}{\text{Total Population}} \times 100$$

This is an indicator which is used for analyzing the employment situation in the country. A higher ratio indicates that more people are actively engaged in the productive activities of the economy. Whereas a medium or low ratio means that a very high proportion of its population is not involved directly in economic activities.

Trends in Employment Pattern

(Sector-wise), 1972-2012 (in %)

Sector	1972-1973	1983	1993-1994	1999-2000	2011-2012
Primary	74.3	68.6	64	60.4	48.9
Secondary	10.9	14.5	16	15.8	24.3
Tertiary	14.8	16.9	20	23.8	26.8
Total	100.0	100.0	100.0	100.0	100.0

- (ii) This is a case of Disguised Unemployment. Disguised unemployment occurs when surplus workers have negligible productivity. Removing them doesn't affect output. Common in rural agriculture, e.g., a farm requiring 4 workers employs 8, making 4 effectively unemployed.

124. The following table shows the population and worker population ratio for India in 1999-2000. Can you estimate the workforce (urban and total) for India?

Region	Estimates of Population (in crores)	Workers Population Ratio	Estimated No. of Workers (in crores)
Rural	71.88	41.9	$\frac{71.88}{100} \times 41.9$ = 30.12
Urban	28.58	33.7	
Total	100.40	39.5	

Ans :

SQP 2021

Region	Estimates of Population (in crores)	Workers Population Ratio	Estimated No. of Workers (in crores)
Rural	71.88	41.9	$\frac{71.88}{100} \times 41.9$ = 30.12
Urban	28.58	33.7	$\frac{28.58}{100} \times 33.7$ = 9.61124
Total	100.40	39.5	$\frac{100.40}{100} \times 39.5$ = 39.658

Estimated no. of workers in urban areas

$$= \frac{28.58}{100} \times 33.7 = 9.61124$$

Therefore it can be seen that workers in urban areas were around 9.61 crores and the total workforce of India was approximately 39.7 crores.

125. Distinguish between formal sector workers and informal sector workers.

Ans :

DELHI 2021

S.No.	Formal Sector Workers	Informal Sector Workers
1.	Workers working in the organized sector are called as formal sector workers.	Workers working in the unorganized sector are called as informal sector workers.
2.	They are entitled to social security benefits like provident fund, gratuity, pension etc.	They do not enjoy any social security benefits.
3.	They are protected by various labour laws.	They remain unprotected by labour laws and are therefore, highly vulnerable.
4.	They can form trade unions.	They cannot form trade unions.

126. Has the quality of employment improved over the years? Comment.

Ans :

FOREIGN 2022

According to labour ministry data, around 16.5 lakh people have benefited from the Atmanirbhar Bharat Rozgar Yojana (ABRY) which was launched in October 2020 to encourage hiring in the country amid the COVID-19 pandemic till March 9, 2021.

The scheme was introduced on October 1, 2020, to incentive the creation of new employment along with social security benefits and restoration of loss of employment during the pandemic.

This scheme, being implemented through the Employees Provident Fund Organization (EPFO), reduces the financial burden of the employers of various sectors/industries and encourages them to hire more.

- (i) _____ Refers to a situation when the economy is able to produce more goods and services without a proportionate increase in employment opportunities.
- (ii) A higher _____ indicates that a high proportion of the population is involved in economic activities.
 - (a) Labour Force Participation Rate
 - (b) Worker-Population Ratio
 - (c) Work Force Participation Rate
 - (d) Employment Ratio
- (iii) Self employed and casual wage labourer are found more in rural areas. (True/False)
- (iv) The newly emerging jobs are mostly found in the _____ sector.
 - (a) Service
 - (b) Manufacturing
 - (c) Agricultural
 - (d) Industries

Ans :

- (i) Jobless growth
- (ii) (b) Worker-Population Ratio
- (iii) True
- (iv) (a) Service

135. Read the paragraph given below and answer the questions that follow :

India's rural economy comprises both farm and non-farm sectors. Remittances sent by millions of migrant workers like Ram contribute to its non-farm economy, which is made up of formal and informal employment in sectors such as retail, construction, manufacturing, hospitality, education and transportation. Non-farm and remittance incomes have been found to exert

a positive impact on food security and rural livelihoods. Consumption expenditure in rural India, where 70% of the population lives, in turn boosts the overall economy.

Though India's economy showed signs of recovery after the first wave peaked in September 2020, the recovery did not hold. Income, employment and nutrition levels were still below baseline pre-lockdown levels by the end of 2020, new research has found. Unemployment has been on the rise since March 2021, entering double digits in May. Besides loss of jobs, wages have also decreased, according to multiple household surveys, leaving many workers unable to properly feed their families.

- (i) Labour Force Participation
Rate = _____ / Total population $\times 100$
- (ii) Why is it necessary to generate employment in the formal sector rather than in the informal sector?
 - (a) Formal workers earn more and get social security benefits
 - (b) Formal workers can leave the job anytime they want
 - (c) Formal workers can form trade unions and protect their interests
 - (d) Both (a) and (b)
- (iii) _____ (Organized/Unorganized) sector covers those enterprises or places of work where the terms of employment are regular and thus, people have assured work.
- (iv) Self employment is a major source of livelihood for both men and women and this category accounts for more than _____ percent of the workforce.
 - (a) 20
 - (b) 25
 - (c) 30
 - (d) 50

Ans :

- (i) Labour Force
- (ii) (d) Both (a) and (b)
- (iii) Organized
- (iv) (d) 50

136. Read the paragraph given below and answer the questions that follow :

Around 80% of India's labour force is employed in the informal sector and the remaining 20% in the formal sector. Of the 80% informal sector

Informational of the workforce is the increasing share of informal workers in the total labor force, marked by a shift from self-employment and regular salaried jobs to informal employment. Key factors driving this trend include :

- (i) Labor Supply-Demand Gap : Excess labor supply due to limited employment opportunities enables producers to favor informal labor.
- (ii) Cost Reduction : Producers maximize profits by employing casual labor to minimize costs.
- (iii) Relaxed Labor Laws : Easier labor regulations encourage employers to prefer casual over regular workers.

- 115.** How is low level of capital formation responsible for the existing problem of unemployment in the country?

Ans :

DELHI 2007

Investment is crucial for boosting output and creating employment opportunities. Low income levels lead to reduced savings, which, in turn, limit investment and capital formation. This creates a vicious cycle of low income, low savings, low investment, low capital formation and low output, perpetuating unemployment due to insufficient job opportunities in the economy. Breaking this cycle is essential for economic growth and employment generation.

- 116.** “In rural areas of India, more members of a family are engaged in work, yet the gross income of the family is generally low.”
Identify the type of unemployment indicated in the above statement and explain the paradox associated with it.

Ans :

SQP 2023

Disguised unemployment occurs when more workers are employed than necessary, contributing no additional output. This is prevalent in rural areas, where an increase in agricultural workers often does not correspond to an expansion in cultivated land. The paradox is that, despite more family members working in agriculture, gross family income remains low. This is because the surplus labor does not enhance productivity, resulting in family income not being proportional to the number of workers.

- 117.** How can accelerating the growth rate of GDP solve the problem of unemployment?

Ans :

FOREIGN 2008

Unemployment can be addressed through accelerated growth, as employment generation naturally accompanies economic growth. Enhancing the agricultural sector is crucial to achieving higher growth. Adopting improved production techniques, expanding irrigation and increasing public investment in agriculture can boost land and labor productivity, leading to higher output and more job opportunities. Similarly, promoting the small-scale sector through affordable financing, better marketing facilities and technical training can drive growth and create additional employment.

- 118.** Discuss the factors responsible for educated unemployment.

Ans :

COMP 2010

Unemployment among the educated people is called as educated unemployment. It mainly arises due to the following reasons :

- (i) The education system in India is not job-oriented but degree-oriented because of which degree holders often fail to find jobs.
- (ii) Increase in the size of educated labour force has been far greater than the increase in employment opportunities because of which educated unemployment is on the rise.
- (iii) There has been rapid expansion of general education and educational institutions which has resulted in increase in the number of educated people.

- 119.** Unemployment means loss of potential output. Do you agree?

Ans :

OD 2009

Yes, I agree with statement. Unemployment reflects the economy's inability to optimally use its labor force. It arises when individuals are willing to work at current wage rates but cannot find jobs due to insufficient employment opportunities. If all capable and willing individuals were engaged in productive work, GDP and overall output would significantly increase, boosting economic efficiency and growth.

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- (i) What does a low proportion of women workers in labour force indicate?
- The economic and social backwardness of a nation
 - That a high proportion of the population is not involved directly in economic activities
 - That women education is still lagging behind
 - Both (a) and (c)
- (ii) Among regular salaried employment, _____ workers are found to be engaged in greater proportion. (Male/Female)
- (iii) In _____ employment, people are not able to find jobs during some months of the year. (Seasonal/Disguised)
- (iv) **Assertion :** Less females are found to be working as compared to males and the participation rate of females is still more in rural areas as compared to urban areas.
Reason : When a worker is engaged by someone or an enterprise and is paid wages on a regular basis they are known as regular salaried employees.
- Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
 - Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).
 - Assertion (A) is true but Reason (R) is false.
 - Assertion (A) is false but Reason (R) is true.

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Ans :

- (d) Both (a) and (c)
- Male
- Seasonal
- (b) High earning families in urban areas discourage female members from taking up jobs and also many activities in which urban women are engaged are not recognized as productive work.

Ans :

FOREIGN 2012

(d) All of the above

- 44.** From the following, identify the strategy which does not promote sustainable development:
- (a) establishment of Mini-Hydel Plants
 - (b) control of biopest by using chemical fertilizers
 - (c) use of cleaner fuels
 - (d) use of non-conventional sources of energy

Ans :

DELHI 2013

(b) control of biopest by using chemical fertilizers

- 45.** CPCB has identified _____ categories of large and medium Industries as polluting industries:
- (a) 15
 - (b) 13
 - (c) 17
 - (d) 19

Ans :

SQP 2014

(b) 13

- 46.** The Montreal Protocol relates to:
- (a) prevention of ozone depletion
 - (b) prevention of resource extinction
 - (c) prevention of biodiversity loss
 - (d) prevention of air and water pollution

Ans :

COMP 2015

(a) prevention of ozone depletion

- 47.** Excess of resource extraction over the rate of their regeneration leads to:
- (a) ozone depletion
 - (b) air and water pollution
 - (c) environmental crisis
 - (d) global warming

Ans :

OD 2016

(c) environmental crisis

- 48.** Which of the following is not a function of environment?
- (a) to assimilate waste
 - (b) to provide aesthetic services
 - (c) to control the growing population
 - (d) to provide resources for production

Ans :

FOREIGN 2017

(c) to control the growing population

- 49.** Which of the following is an abiotic element of environment?
- (a) Air
 - (b) Plants
 - (c) Animals
 - (d) Forests

Ans :

FOREIGN 2019

(a) Air

- 50.** Following is not a cause of environmental degradation.
- (a) agricultural practices of using chemical fertilizers and pesticides
 - (b) recycling of wastes
 - (c) urbanisation
 - (d) poverty

Ans :

DELHI 2018

(c) urbanisation

- 51.** Loss of the top surface soil due to excessive deforestation is called
- (a) soil erosion
 - (b) biodiversity loss
 - (c) deforestation
 - (d) all of the above

Ans :

SQP 2019

(a) soil erosion

- 52.** Adoption of the following can help achieve sustainable development.
- (a) use of non conventional sources of energy
 - (b) use of bio-compost
 - (c) establishment of mini Hydel plants
 - (d) All of the above

Ans :

COMP 2020

(d) All of the above

- 53.** In order to achieve sustainable development, we should try to
- (a) develop our human resources
 - (b) develop our infrastructure
 - (c) Ensure that the rate of extraction of non renewable resources does not exceed the rate of generation of renewable substitutes
 - (d) achieve technological progress so as to ensure a higher rate of economic growth.

Ans :

OD 2021

(c) Ensure that the rate of extraction of non renewable resources does not exceed the rate of generation of renewable substitutes

- 54.** Which of the following is not used as a strategy for Sustainable Development?
- (a) Use of bio-gas
 - (b) Use of solar power
 - (c) Use of thermal power
 - (d) Use of hydel power

Deforestation is one of the major reasons for soil erosion.

3.6 Deforestation

It refers to the removal or destruction of the forest cover of an area. Deforestation, on a rapid scale, has disturbed the ecological balance of the country.

3.7 Loss of Biodiversity

It is a decline in the amount of specific species in a given eco-system. Biodiversity includes different types of plants, micro-organisms etc. It is a very important resource because it enhances natural beauty, helps in renewing the natural resources and also helps in the creation of the ecological system.

4. CAUSES OF ENVIRONMENTAL DEGRADATION

Environmental degradation poses a serious threat to the planet, impacting both ecosystems and human life. The causes are rooted in human actions and unsustainable practices, as outlined below:

1. Rapid growth of population has put a huge burden on natural resources.
2. Widespread poverty has led to excessive cutting of trees by poor people to be used as fuel.
3. Rapid industrialisation has led to severe environmental problems due to generation of a lot of waste.
4. Increasing use of chemical fertilizers, pesticides & insecticides has added to environmental degradation.
5. Urbanisation has caused clearing of land for housing, industries, construction of roads, etc.

5. MEASURES TO CONTROL ENVIRONMENTAL DEGRADATION

Environmental degradation can be mitigated through collective efforts and sustainable practices. Effective measures are necessary to ensure ecological balance and preserve resources for future generations.

1. Vehicular pollution control needs to be given top priority.
2. Domestic and industrial wastes needs to be recycled and put to productive use.

3. Poverty issues need to be addressed in order to control environmental degradation.
4. Urgent pollution control measures need to be adopted in order to keep the level of waste generated within the carrying capacity of the environment.
5. Public awareness has to be created about the dangers of pollution and degradation of environment.

6. MEASURES TAKEN BY THE GOVERNMENT FOR ENVIRONMENT PROTECTION

Government of India has undertaken several legal and administrative measures to protect the environment from further degradation. These measures are as follows:

6.1 Environment (Protection) Act, 1986

This act empowered the government to take all measures necessary for protecting and improving the quality of environment.

6.2 Pollution Control Boards

In order to address the problem of water and air pollution in India, the government set up the Central Pollution Control Board (CPCB) in 1974. Its main function is to investigate, collect and disseminate information related to water, air and land pollution and to lay down standards for sewage/trade effluent and emissions.

6.3 The Forest (Conservation) Act, 1980

This act has strict provisions to check the diversion of forest land for any other purpose.

7. GLOBAL WARMING

Global warming is an observed projected increase in the average temperature of earth's atmosphere and oceans due to increase in greenhouse gases since the industrial revolution. The main causes of global warming are:

1. Burning of coal and petroleum products which are sources of carbon dioxide, methane, nitrous oxide, ozone.
2. Deforestation which increases the level of carbon dioxide in the atmosphere.
3. Release of methane gas from animal waste.
4. Increased cattle production which contributes to deforestation.

7.1 Ozone Depletion

It refers to destruction of ozone in the ozone layer due to presence of chlorine from man-made

- 25.** The Central Pollution Control Board (CPCB) was established to address problems related to _____ pollution in India.

(a) Noise and thermal
(b) Land and mining
(c) Wildlife and forest
(d) Air and water

Ans :

SQP 2006

(d) Air and water

CPCB investigates and monitors air and water pollution levels and establishes standards to control pollution.

- 26.** Deforestation leads to _____ by removing trees that help in maintaining ecological balance.

(a) Increased biodiversity
(b) Soil erosion and climate change
(c) Sustainable forest management
(d) Reduced air pollution

Ans :

COMP 2005

(b) Soil erosion and climate change

Deforestation causes soil erosion and increases carbon dioxide in the atmosphere, contributing to climate change.

- 27.** The Montreal Accord was established to address the problem of _____ by reducing the use of CFCs.

(a) Ozone depletion
(b) Global warming
(c) Deforestation
(d) Biodiversity loss

Ans :

OD 2004

(a) Ozone depletion

The Montreal Accord aims to reduce the use of chlorofluorocarbons (CFCs) that destroy the ozone layer, protecting against harmful ultraviolet

- 28.** Rapid _____ has led to the clearing of land for housing, industries and road construction, contributing to environmental degradation.

(a) Industrialization
(b) Urbanization
(c) Deforestation
(d) Biodiversity

Ans :

FOREIGN 2003

(b) Urbanization

Urbanization involves clearing land for infrastructure development, causing deforestation and other environmental issues.

- 29.** _____ pollution refers to the presence of harmful substances in water, often caused by domestic sewage and industrial wastewater.

(a) Air
(b) Noise
(c) Water
(d) Land

Ans :

DELHI 2002

(c) Water

Water pollution occurs when contaminants like sewage, industrial waste and pesticides degrade water quality.

- 30.** The use of _____ as fuel in public transport systems has significantly reduced vehicular air pollution in India.

(a) Biomass
(b) Coal
(c) Compressed Natural Gas (CNG)
(d) Diesel

Ans :

SQP 2001

(c) Compressed Natural Gas (CNG)

CNG is a cleaner fuel and its use in public transport systems has helped lower air pollution levels.

- 31.** The term “loss of biodiversity” refers to the decline in the variety of _____ within an ecosystem.

(a) Species
(b) Forests
(c) Minerals
(d) Renewable resources

Ans :

COMP 2000

(a) Species

Biodiversity loss occurs when the number of species in an ecosystem decreases, disrupting ecological balance.

- 32.** Soil erosion, often caused by deforestation, occurs when surface soil is _____ by heavy rains and floods.

(a) Enriched
(b) Washed away
(c) Contaminated
(d) Compacted

Ans :

OD 2001

(b) Washed away

Soil erosion is the removal of the top layer of soil due to water or wind, often exacerbated by deforestation and heavy rains.

4. What is the primary goal of sustainable development and how does it address the need for balancing economic growth with environmental conservation?

- (a) Higher resource extraction
- (b) Development with environmental balance
- (c) Complete elimination of industrialization
- (d) Unlimited use of non-renewable resources

Ans :

FOREIGN 2022

(b) Development with environmental balance
Sustainable development aims to promote economic growth while ensuring that the environment is preserved for future generations.

5. What is the primary function of the Central Pollution Control Board (CPCB) in addressing environmental challenges like air, water and land pollution in India?

- (a) Managing renewable energy resources
- (b) Investigating and monitoring pollution levels
- (c) Increasing industrial productivity
- (d) Protecting forest land from deforestation

Ans :

SQP 2021

(b) Investigating and monitoring pollution levels
CPCB is responsible for investigating, monitoring and laying down standards for controlling pollution in air, water and land.

6. How can chemical fertilizers and pesticides affect the environment and what alternative should be encouraged to minimize environmental degradation?

- (a) Increase water resources
- (b) Improve the quality of soil
- (c) Lead to contamination; use bio-compost
- (d) Enhance crop productivity

Ans :

DELHI 2022

(c) Lead to contamination; use bio-compost
Chemical fertilizers and pesticides can contaminate soil and water, so using bio-compost is a sustainable alternative.

7. Why is the use of wood and biomass for fuel discouraged and what alternatives have been promoted to address environmental concerns?

- (a) It increases food production
- (b) It causes deforestation and pollution; LPG and CNG promoted
- (c) It reduces air pollution
- (d) It improves soil fertility

Ans :

SQP 2015

- (b) It causes deforestation and pollution; LPG and CNG promoted

The use of wood and biomass as fuel leads to deforestation and air pollution, whereas LPG and CNG are cleaner alternatives promoted by the government.

8. What is the main purpose of the Environment (Protection) Act, 1986, introduced by the Indian government?

- (a) To take measures to protect and improve environmental quality
- (b) To promote the use of renewable energy
- (c) To regulate agricultural practices
- (d) To promote afforestation programs

Ans :

COMP 2016

- (a) To take measures to protect and improve environmental quality

The Environment (Protection) Act, 1986 empowers the government to take necessary steps to protect and improve the environment.

9. What is the main cause of ozone layer depletion and how does it affect the environment?

- (a) Increased use of renewable resources, causing greenhouse effects
- (b) Chlorofluorocarbons (CFCs), allowing more ultraviolet radiation to reach Earth
- (c) Methane emissions, damaging plant life
- (d) Deforestation, leading to soil erosion

Ans :

OD 2017

- (b) Chlorofluorocarbons (CFCs), allowing more ultraviolet radiation to reach Earth
CFCs destroy ozone molecules, causing the ozone layer to deplete and increasing ultraviolet radiation, which harms living organisms.

10. How does rapid urbanization contribute to environmental degradation in India?

- (a) It improves water quality in rural areas
- (b) It clears land for housing and industrial construction
- (c) It increases the use of renewable energy sources
- (d) It reduces air pollution in cities

Ans :

SQP 2019

- (b) It clears land for housing and industrial construction
Urbanization leads to deforestation and clearing of land for housing, industries and infrastructure, causing environmental degradation.

chlorofluorocarbons (CFCs) and other sources. As a result of depletion of the ozone layer, more ultraviolet radiation reaches the earth and causes damage to living organisms. In order to stop the depletion of ozone layer, an international agreement was made by the members of United Nations which was known as the Montreal Accord. The Montreal Accord has significantly reduced the burden of CFCs in the stratosphere and has helped in ozone recovery.

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8. SUSTAINABLE DEVELOPMENT

It is the development, which will allow all future generations to have an average quality of life, at least as high, which is being enjoyed by the current generation.

Following are the necessary conditions for sustainable development:

1. Controlling the human population to a level within the carrying capacity of the environment.
2. Technological progress should be made input-efficient instead of input-consuming.
3. Renewable resources should be extracted on a sustainable basis.
4. Renewable substitutes of non-renewable resources should be found and used.
5. Pollution emissions should be limited to the absorption capacity of the environment.

9. STRATEGIES FOR SUSTAINABLE DEVELOPMENT

Sustainable development ensures the balance between economic growth and environmental protection. It promotes practices that meet present needs without compromising the future.

1. Non-conventional sources of energy like wind, power and solar energy should be used to replace thermal and hydro power.
2. Mini Hydel plants can be set up to use the energy of streams flowing from hilly areas to move small turbines.
3. The use of Bio-compost should be encouraged.
4. Chemical pesticides have adverse impacts on food products, soil and water bodies. Therefore, the use of pesticides based on plant products like neem trees should be encouraged.
5. There should be a shift to the use of old practices like Ayurveda and Unani systems of treatment which are environment friendly.

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6. The use of wood, dung cake and other biomass as fuel should be discouraged as it leads to several problems like deforestation, air pollution etc. To meet this situation, subsidised LPG is being provided by the government at subsidised rates. The use of Compressed Natural Gas (CNG) as fuel in public transport system has also substantially reduced the level of air pollution.

MULTIPLE CHOICE QUESTION

1. Which of the following is not a benefit of organic farming?
 - (a) Cheaper inputs
 - (b) Attractive returns on investment
 - (c) Greater import possibilities
 - (d) Higher nutritional value

Ans :

OD 2024

- (c) Greater import possibilities

2. Identify, which of the following is not a correct function of environment?
 - (i) Exclusion of waste
 - (ii) Sustainance of life
 - (iii) Provide aesthetic services

Alternatives:

- (a) (i) only
- (b) (ii) only
- (c) (ii) & (iii)
- (d) (i) & (ii)

Ans :

FOREIGN 2024

- (a) (i) only

3. Which of the following is a significant contributor to global warming, particularly due to its role in deforestation and methane emissions into the atmosphere?
 - (a) Increased cattle production
 - (b) Decrease in methane emissions
 - (c) Increased use of renewable resources
 - (d) Growth of forest cover

Ans :

OD 2023

(a) Increased cattle production
Increased cattle production leads to deforestation and methane emissions, both of which significantly contribute to global warming.

- 18.** How does the excessive use of chemical fertilizers and pesticides contribute to environmental degradation?

(a) It improves crop yield and biodiversity
 (b) It contaminates soil and water resources
 (c) It enhances the fertility of the soil
 (d) It reduces deforestation in agricultural areas

Ans :

FOREIGN 2022

(b) It contaminates soil and water resources
 Excessive use of chemical fertilizers and pesticides leads to contamination of soil and water, harming ecosystems and human health.

- 19.** What role do mini Hydel plants play in promoting sustainable energy practices in India?

(a) They produce large-scale electricity for industries
 (b) They reduce the dependency on nuclear power
 (c) They harness the energy of flowing streams to move small turbines
 (d) They replace wind energy production

Ans :

SQP 2011

(c) They harness the energy of flowing streams to move small turbines

Mini Hydel plants generate electricity using the energy of streams, making them an eco-friendly and sustainable energy source.

- 20.** What does the term “loss of biodiversity” refer to and why is it a challenge for the environment?

(a) Increase in non-native species
 (b) Decline in the variety of species within an ecosystem
 (c) Excessive planting of a single crop
 (d) Growth in the number of endangered species

Ans :

COMP 2010

(b) Decline in the variety of species within an ecosystem

Loss of biodiversity refers to a reduction in the variety of species in an ecosystem, which disrupts ecological balance and resource renewal.

- 21.** Why is public awareness crucial in controlling environmental degradation?

(a) It reduces the need for recycling programs
 (b) It encourages responsible behavior to protect the environment
 (c) It increases government spending on industrialization
 (d) It discourages sustainable development

Ans :

OD 2009

(b) It encourages responsible behavior to protect the environment

Public awareness helps people understand the consequences of environmental degradation and adopt practices to protect the environment.

- 22.** What is a key feature of sustainable development in terms of renewable and non-renewable resources?

(a) Extract renewable resources sustainably and find substitutes for non-renewable resources
 (b) Use all resources at the maximum rate possible
 (c) Focus solely on industrial growth without regard to environmental impact
 (d) Avoid using non-renewable resources completely

Ans :

DELHI 2013

(a) Extract renewable resources sustainably and find substitutes for non-renewable resources

Sustainable development emphasizes using renewable resources carefully and substituting non-renewable resources with renewable alternatives.

- 23.** The excessive use of _____ in agriculture contaminates soil and water resources, leading to environmental degradation.

(a) Renewable resources
 (b) Bio-compost
 (c) Chemical fertilizers and pesticides
 (d) Neem-based products

Ans :

FOREIGN 2008

(c) Chemical fertilizers and pesticides

Chemical fertilizers and pesticides contaminate soil and water, harming ecosystems, whereas bio-compost and neem-based products are eco-friendly alternatives.

- 24.** The _____ Act, 1980, is aimed at preventing the diversion of forest land for non-forest purposes in India.

(a) Wildlife Protection
 (b) Forest (Conservation)
 (c) Environment (Protection)
 (d) National Biodiversity

Ans :

DELHI 2007

(b) Forest (Conservation)

The Forest (Conservation) Act, 1980, restricts the use of forest land for non-forest purposes to preserve forest cover.

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- 11.** What does “carrying capacity” of the environment refer to and how does it help in sustainable development?

- (a) The total population a country can support economically
- (b) The maximum agricultural yield a region can produce
- (c) The environment’s ability to handle resource extraction and waste absorption
- (d) The number of industries a region can sustain

Ans :

COMP 2018

- (c) The environment’s ability to handle resource extraction and waste absorption

Carrying capacity refers to the environment’s ability to regenerate resources and absorb waste without degrading.

- 12.** Why is the use of neem-based pesticides encouraged as a sustainable practice in agriculture?

- (a) They are cheaper than chemical pesticides
- (b) They have no adverse impact on soil, water, or food quality
- (c) They eliminate the need for irrigation
- (d) They increase the productivity of chemical fertilizers

Ans :

OD 2012

- (b) They have no adverse impact on soil, water, or food quality

Neem-based pesticides are eco-friendly and avoid contamination of soil, water and food, unlike chemical pesticides.

- 13.** How does deforestation significantly disturb the ecological balance in India?

- (a) It improves soil fertility
- (b) It leads to increased biodiversity
- (c) It causes loss of habitat and contributes to climate change
- (d) It reduces air pollution levels

Ans :

FOREIGN 2017

- (c) It causes loss of habitat and contributes to climate change

Deforestation results in habitat loss, reduced carbon absorption and climate imbalances.

- 14.** Why is it important to control the human population to achieve sustainable development?

- (a) To reduce dependency on renewable resources
- (b) To maintain resource consumption within carrying capacity
- (c) To promote rapid industrialization
- (d) To increase urban migration

Ans :

SQP 2015

- (b) To maintain resource consumption within carrying capacity

Controlling population growth helps ensure that resource use and waste generation stay within environmental limits.

- 15.** What is the primary objective of the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA)?

- (a) To guarantee 100 days of work per household per year
- (b) To provide employment for 150 days annually
- (c) To promote urban employment schemes
- (d) To enhance industrial growth

Ans :

DELHI 2021

- (a) To guarantee 100 days of work per household per year

MGNREGA aims to provide guaranteed employment of 100 days per financial year to rural households.

- 16.** How has the use of Compressed Natural Gas (CNG) in public transport helped in controlling pollution?

- (a) It has reduced deforestation in rural areas
- (b) It has reduced noise pollution in urban areas
- (c) It has eliminated greenhouse gas emissions
- (d) It has significantly decreased vehicular air pollution

Ans :

COMP 2013

- (d) It has significantly decreased vehicular air pollution

CNG is a cleaner fuel that reduces harmful emissions, thus lowering air pollution levels in cities.

- 17.** What is the significance of the Forest (Conservation) Act, 1980, in India’s environmental policies?

- (a) It allows conversion of forest land for industrial use
- (b) It promotes timber trade for economic growth
- (c) It encourages monoculture plantations
- (d) It checks the diversion of forest land for non-forest purposes

Ans :

OD 2014

- (d) It checks the diversion of forest land for non-forest purposes

The Forest (Conservation) Act, 1980 aims to conserve forest cover by restricting its use for non-forest activities.

33. Environment includes:

- (a) biotic elements
- (b) Abiotic elements
- (c) both (a) and (b)
- (d) neither (a) nor (b)

Ans :

FOREIGN 2002

- (c) both (a) and (b)

34. The ability of the environment to absorb degradation without causing environmental damage is called _____.

- (a) opportunity cost
- (b) environmental degradation
- (c) absorptive damage
- (d) absorptive capacity

Ans :

DELHI 2003

- (d) absorptive capacity

35. Following is not a reason for the environmental crisis currently being faced by the economy:

- (a) affluent consumption and production standards
- (b) development process
- (c) slowdown of demand due to pandemic
- (d) extinction of resources

Ans :

SQP 2004

- (c) slowdown of demand due to pandemic

36. Carrying capacity implies:

- (a) resource extraction should be less than resource regeneration
- (b) waste generated should be within the absorptive capacity of the environment
- (c) discovering alternatives to extinct resources
- (d) both (a) and (b)

Ans :

COMP 2005

- (d) both (a) and (b)

37. Reversal of supply-demand relationship implies:

- (a) in the past, supply was less than demand, unlike now
- (b) in the past, demand was less than supply, unlike now
- (c) in the present, demand is beyond the rate of regeneration of resources, unlike in the past
- (d) both (b) and (c)

Ans :

FOREIGN 2007

- (d) both (b) and (c)

38. Cost of the next best alternative foregone is called _____.

- (a) opportunity cost
- (b) fixed cost
- (c) variable cost
- (d) total cost

Ans :

OD 2006

- (a) opportunity cost

39. Following is not an effect of global warming:

- (a) melting of ice
- (b) shift in cycle of seasons
- (c) timely prediction of natural disasters
- (d) increased incidence of tropical diseases

Ans :

DELHI 2008

- (c) timely prediction of natural disasters

40. India signed the Montreal protocol in:

- (a) 1991
- (b) 1992
- (c) 1993
- (d) 1994

Ans :

SQP 2009

- (b) 1992

41. _____ involves the permanent destruction of indigenous forests and woodlands:

- (a) deforestation
- (b) biodiversity loss
- (c) land degradation
- (d) soil degradation

Ans :

COMP 2010

- (a) deforestation

42. The Central Pollution Control Board was set up by the government in 1974 to address the problem of:

- (a) biodiversity loss
- (b) water and air pollution
- (c) deforestation
- (d) soil erosion

Ans :

OD 2011

- (b) water and air pollution

43. Which of the following is a consequence of ozone layer depletion?

- (a) Skin cancer in humans
- (b) Lower production of phytoplanktons
- (c) Hampers growth of terrestrial plants
- (d) All of the above

CHAPTER 12

ENVIRONMENT AND SUSTAINABLE DEVELOPMENT

SUMMARY

1. ENVIRONMENT

Environment is defined as the total planetary inheritance and the totality of all resources. It is the sum total of external forces that surround us. It includes all the biotic and abiotic factors that influence each other.

1.1 Biotic Elements

These include all living elements like birds, animals and plants, forests, fisheries etc.

1.2 Abiotic Elements

These include non-living elements like air, water, land etc.

1.3 Functions of Environment

1. Environmental resources represent minerals, wood, water etc. that are used as inputs in production.
2. Environment sustains life by providing the basic necessities of human life.
3. It absorbs the waste generated by the production and consumption activities.
4. Environment includes land, water bodies, forests etc. which are pleasing to look at and also improve the quality of life.

The environment is able to perform these functions as long as demand on the functions is within its Carrying capacity. Carrying Capacity implies two things:

1. Resource extraction should remain below the rate of resource generation.
2. Generation of waste should remain within the absorption capacity of the environment.

2. STATE OF ENVIRONMENT IN INDIA

India has abundant natural resources in terms of rich quality of soil, many rivers, lush green forests, plenty of mineral deposits like bauxite, copper,

diamonds, lead, manganese, zinc, uranium etc. But, despite these advantages, there are some basic problems related to environment. These are:

1. Pollution and
 2. Excessive exploitation of natural resources.
- Both these problems have emerged due to rapid economic growth and industrialisation in the developed world.

3. CHALLENGES TO INDIA'S ENVIRONMENT

India faces significant environmental challenges that threaten its ecological balance and sustainability. These issues stem from human activities and natural processes. The challenges to India's environment are as follows :

INDIA

3.1 Air Pollution

Air pollution indicates the presence of pollutants in the air which causes health problems. It is mainly caused by industries and vehicles.

3.2 Water Pollution

This means contamination of water by foreign matter that deteriorates quality of water. It is mainly caused by domestic sewage, industrial waste water, chemicals and pesticides used in agriculture and waste generated by thermal power houses.

3.3 Noise Pollution

Mechanization has raised the levels of efficiency, but it has also raised the level of noise pollution. Man made sources are the main sources of noise pollution.

3.4 Degradation of Land

This means loss of fertility of land. It has put a huge pressure on the country's limited land resources.

3.5 Soil Erosion

Soil erosion takes place when the surface soil is washed away due to excessive rains and floods.

Ans :

DELHI 2020

(c) Use of thermal power

55. In an economy, when the rate of resource extraction is lower than the rate of regeneration of the resource, the environment may operate _____. (Fill up the blank with correct alternative)

- (a) within its carrying capacity.
- (b) beyond its absorptive capacity.
- (c) beyond its carrying capacity.
- (d) beyond its aesthetic capacity.

Ans :

SQP 2023

(a) within its carrying capacity.

56. Identify, which of the following is an incorrect function of environment?

- (a) Supplies resources
- (b) Assimilates waste
- (c) Land degradation
- (d) Provides aesthetic services

Ans :

COMP 2023

(c) Land degradation

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ASSERTION AND REASON

57. **Assertion :** Affluence in living standards is causing environmental degradation.

Reason : The developmental activities have resulted in pressure on our finite natural resources and environmental pollution.

- (a) Both Assertion and Reason are true and Reason is the correct explanation of Assertion.
- (b) Both Assertion and Reason are true and Reason is not the correct explanation of Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

SQP 2023

(a) Both Assertion and Reason are true and Reason is the correct explanation of Assertion.

58. **Assertion :** Rapid deforestation has disturbed the ecological imbalance of the country.

Reason : The growth of the human population should be controlled to a level which is within the carrying capacity of the environment.

- (a) Both Assertion and Reason are true and Reason is the correct explanation of Assertion.
- (b) Both Assertion and Reason are true and Reason is not the correct explanation of Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

FOREIGN 2015

(b) Deforestation can cause loss of nutrients from the soil leading to soil erosion which can in turn lead to disastrous flooding since there is no soil to soak up the rain

59. **Assertion :** Sustainable development allows all future generations to have a potentially average and balance quality of life.

Reason : Sustainable development aims at preventing further damage to our life-support systems.

- (a) Both Assertion and Reason are true and Reason is the correct explanation of Assertion.
- (b) Both Assertion and Reason are true and Reason is not the correct explanation of Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

COMP 2010

(a) Both Assertion and Reason are true and Reason is the correct explanation of Assertion.

60. **Assertion :** The intensive and extensive extraction of resources have exhausted some of the environmental resources making them an economic good.

Reason : Global environmental issues, like global warming, have led to increased financial commitments for the government.

- (a) Both Assertion and Reason are true and Reason is the correct explanation of Assertion.
- (b) Both Assertion and Reason are true and Reason is not the correct explanation of Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

SQP 2017

(b) Loss of nutrients and soil erosion due to deforestation, loss of plant and animal species due to destruction of their habitat and over exploitation of resources have led to serious economic and social costs to the country.

and livelihoods, particularly in rural and forest-dependent communities.

- 113.** The Montreal Protocol is an essential international treaty addressing global environmental challenges. It focuses on preserving the ozone layer through collective efforts by all participating nations. What is the Montreal Protocol and why is it important?

Ans :

OD 2017

The Montreal Protocol is an international agreement established to phase out ozone-depleting substances like CFCs. It is important because it prevents the depletion of the ozone layer, which shields Earth from harmful ultraviolet radiation. This protection reduces the risks of skin cancer, ecological damage and disruptions in food chains caused by increased UV exposure.

THREE MARK QUESTIONS

- 114.** Explain the supply-demand reversal of environmental resources.

Ans :

DELHI 2024

Previously, the demand for environmental resources was low compared to their supply due to lower living standards, minimal technology use and slower industrialization. Pollution remained within the environment's absorptive capacity and resource extraction was slower than their regeneration. However, rapid industrial growth has reversed this balance, with resource demand now exceeding supply, leading to environmental degradation.

- 115.** How has economic development contributed towards deforestation?

Ans :

FOREIGN 2024

In India, economic development has led to indiscriminate use of natural resources, causing severe environmental issues like deforestation. Key causes include:

- (i) Rising industrial demand for wood and forest products.
- (ii) Urbanization, which clears forests for human settlements.
- (iii) Dam construction, leading to soil erosion and land loss along river channels.

- (iv) Increased population demand for firewood.

- 116.** Define the Absorptive capacity of the environment.

Ans :

FOREIGN 2018

The absorptive capacity of the environment refers to its ability to manage degradation, absorbing waste sustainably without harm. This capacity is under strain as excessive waste generation leads to an environmental crisis. Development has polluted and dried water sources, elevating their economic value. Overextraction of resources—renewable and non-renewable—has depleted reserves, necessitating costly technological exploration for alternatives. High population, affluent consumption in developing nations and production standards in developed countries impose immense pressure on resources, exceeding the environment's absorptive capacity, threatening resource sustainability.

- 117.** Global warming is a pressing environmental challenge caused by human activities and natural processes. Addressing it is crucial to ensuring a sustainable future for the planet. Write a brief note on global warming.

Ans :

DELHI 2019

Global warming is the gradual rise in Earth's lower atmosphere temperature due to increased greenhouse gases since the industrial revolution. This recent temperature rise is attributed to human activities such as burning fossil fuels and deforestation. Combustion of coal and petroleum significantly contributes to carbon dioxide emissions, further intensifying the greenhouse effect.

- 118.** Distinguish between Renewable and Non-renewable sources of energy.

Ans :

SQP 2020

Difference between Renewable sources and Non-Renewable sources

	Renewable sources	Non-Renewable sources
1.	These are those resources which can be used without the possibility of the resources becoming depleted or exhausted.	These are those resources which get exhausted with their constant use.

(b) Due to lack of sufficient resources and improper knowledge, poverty stricken people tend to overuse every resource available to them for survival.

67. Assertion : Air pollution causes health problems.

Reason : Land degradation can lead to climate changes.

- (a) Both Assertion and Reason are true and Reason is the correct explanation of Assertion.
- (b) Both Assertion and Reason are true and Reason is not the correct explanation of Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

OD 2003

(b) Exposure to particulate matter for a long time can lead to respiratory and cardiovascular diseases such as asthma, bronchitis, lung cancer etc.

68. Assertion : Generation of waste beyond the absorptive capacity of the environment has resulted in the present day environmental crisis.

Reason : The opportunity costs of negative environmental impacts are high.

- (a) Both Assertion and Reason are true and Reason is the correct explanation of Assertion.
- (b) Both Assertion and Reason are true and Reason is not the correct explanation of Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

COMP 2017

(b) The affluent consumption and production standards of the developed world has led to waste being generated beyond the absorptive capacity of the environment.

STATEMENT BASED QUESTIONS

69. Which of the following statements about environmental degradation are correct?

- 1. Urbanization leads to the clearing of forests for housing and infrastructure.
- 2. Deforestation helps in controlling soil erosion.
- 3. Chemical fertilizers contaminate soil and water resources.
- 4. Noise pollution is caused primarily by natural processes.

- (a) 1 and 2
- (b) 1 and 3
- (c) 2 and 4
- (d) 3 and 4

Ans :

OD 2014

- (b) 1 and 3

Urbanization leads to deforestation and chemical fertilizers pollute soil and water. Deforestation causes, not controls, soil erosion and noise pollution is mainly man-made.

70. Which of the following statements about sustainable development are true?

- 1. It focuses on economic growth without considering environmental impact.
- 2. Renewable resources should be extracted on a sustainable basis.
- 3. Pollution emissions should stay within the absorption capacity of the environment.
- 4. Technological progress should be input-efficient rather than input-consuming.

- (a) 1 and 2
- (b) 2 and 3
- (c) 3 and 4
- (d) 2, 3 and 4

Ans :

FOREIGN 2015

- (d) 2, 3 and 4

Sustainable development emphasizes renewable resource management, limiting pollution and promoting input-efficient technology. It balances economic growth with environmental conservation.

71. Which of the following statements about biodiversity loss are correct?

- 1. It results in a decline in the variety of species in an ecosystem.
- 2. Loss of biodiversity enhances ecological balance.
- 3. It reduces the availability of natural resources for renewal.
- 4. Deforestation is a major cause of biodiversity loss.

- (a) 1 and 3
- (b) 1, 3 and 4
- (c) 2 and 3
- (d) 1, 2 and 4

Ans :

DELHI 2016

- (b) 1, 3 and 4

Biodiversity loss decreases species variety and natural resource renewal while being strongly linked to deforestation. It disrupts, not enhances,

61. Assertion : The indiscriminate use of chemical fertilisers and pesticides has led to long term adverse effects on soil fertility.

Reason : Population control will help maintain a balance between extraction of environmental resources and their regeneration.

- (a) Both Assertion and Reason are true and Reason is the correct explanation of Assertion.
- (b) Both Assertion and Reason are true and Reason is not the correct explanation of Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

OD 2002

(b) Use of chemical fertilizers and pesticides has adversely affected large areas of productive land by depleting its essential nutrients and minerals.

62. Assertion : Industrial pollution can be checked by promoting the use of better technologies.

Reason : Overuse of environmental resources occurs when supply of environmental resources is much more than their demand.

- (a) Both Assertion and Reason are true and Reason is the correct explanation of Assertion.
- (b) Both Assertion and Reason are true and Reason is not the correct explanation of Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

DELHI 2019

(c) Reducing or eliminating waste by modifying production processes, promoting the use of non-toxic or less toxic substances and implementing conservation techniques can help check industrial pollution.

63. Assertion : High density of population and the competing uses of land have added to the existing environmental crisis.

Reason : Higher population leads to higher demand which leads to higher production which creates more demand for finite resources leading to environmental crisis.

- (a) Both Assertion and Reason are true and Reason is the correct explanation of Assertion.
- (b) Both Assertion and Reason are true and Reason is not the correct explanation of Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

COMP 2005

(a) Both Assertion and Reason are true and Reason is the correct explanation of Assertion.

64. Assertion : Ozone depletion results in more ultraviolet radiation reaching the earth.

Reason : Ozone depletion is caused by increase in carbon dioxide and other greenhouse gases through the burning of fossil fuels and deforestation.

- (a) Both Assertion and Reason are true and Reason is the correct explanation of Assertion.
- (b) Both Assertion and Reason are true and Reason is not the correct explanation of Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

FOREIGN 2009

(c) Ozone depletion is caused by high levels of chlorine and bromine compounds in the stratosphere which results in more ultraviolet radiation reaching the earth and causing damage to living organisms

65. Assertion : Biodiversity loss has serious economic and social costs for any country.

Reason : The existence of many plants and animal species is threatened by the destruction of their habitat, thus disturbing the ecological balance of a country.

- (a) Both Assertion and Reason are true and Reason is the correct explanation of Assertion.
- (b) Both Assertion and Reason are true and Reason is not the correct explanation of Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

DELHI 2020

(a) Both Assertion and Reason are true and Reason is the correct explanation of Assertion.

66. Assertion : Poverty causes environmental degradation.

Reason : The Central Pollution Control Board (CPCB) was set up in 1974 to address the problem of water and air pollution in India.

- (a) Both Assertion and Reason are true and Reason is the correct explanation of Assertion.
- (b) Both Assertion and Reason are true and Reason is not the correct explanation of Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

SQP 2011

77. Which of the following statements about noise pollution are correct?

1. Mechanization and urbanization are major causes of noise pollution.
2. Noise pollution has no adverse effects on human health.
3. It can be reduced by adopting quieter machinery.
4. Natural processes are the primary sources of noise pollution.

- (a) 1 and 3
(b) 2 and 4
(c) 1, 3 and 4
(d) 1, 2 and 3

Ans :

SQP 2022

- (a) 1 and 3

Noise pollution is mainly caused by human activities like mechanization and urbanization and can be controlled by using quieter machinery. It affects human health and natural processes play a minor role.

78. Which of the following statements about the measures to control environmental degradation are correct?

1. Recycling domestic and industrial waste can help mitigate environmental degradation.
2. Addressing poverty does not impact environmental issues.
3. Public awareness campaigns can promote eco-friendly practices.
4. Pollution control measures help maintain the environment's carrying capacity.

- (a) 1, 3 and 4
(b) 1, 2 and 3
(c) 2 and 4
(d) 1, 2, 3 and 4

Ans :

COMP 2023

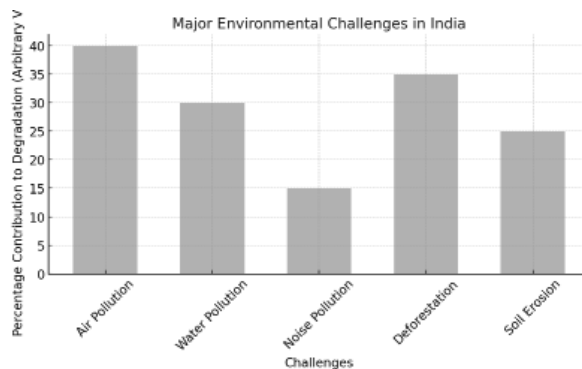
- (a) 1, 3 and 4

Recycling waste, public awareness and pollution control measures are key to mitigating environmental degradation. Poverty issues must also be addressed as they contribute to environmental harm.

GRAPH BASED QUESTIONS

79. The bar graph shows major environmental challenges in India, represented by arbitrary

percentages of their contribution to environmental degradation.



Based on the bar graph, which of the following challenges contributes the most to environmental degradation?

- (a) Air Pollution
(b) Water Pollution
(c) Noise Pollution
(d) Soil Erosion

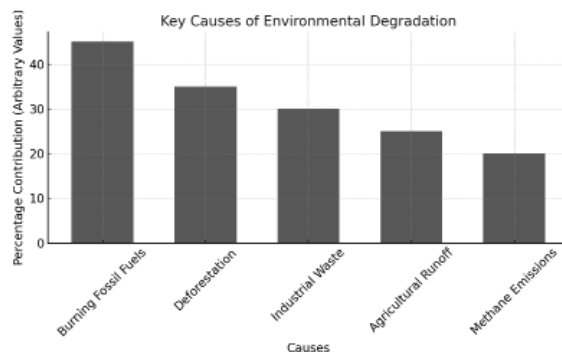
Ans :

OD 2010

- (a) Air Pollution

As per the bar graph, air pollution has the highest percentage contribution to environmental degradation compared to other challenges.

80. The bar graph displays the key causes of environmental degradation and their percentage contributions (arbitrary values).



Based on the bar graph, which of the following causes has the highest contribution to environmental degradation?

- (a) Deforestation
(b) Agricultural Runoff
(c) Burning Fossil Fuels
(d) Methane Emissions

Ans :

FOREIGN 2011

- (c) Burning Fossil Fuels

ecological balance.

72. Which of the following statements about the causes of global warming are correct?

1. Burning of coal and petroleum releases greenhouse gases.
2. Deforestation decreases carbon dioxide in the atmosphere.
3. Methane gas is released from animal waste.
4. Increased cattle production contributes to methane emissions.

- (a) 1 and 2
- (b) 1, 3 and 4
- (c) 2, 3 and 4
- (d) 1, 2 and 4

Ans :

SQP 2017

- (b) 1, 3 and 4

Burning fossil fuels, methane emissions from animal waste and cattle production all contribute to global warming. Deforestation increases, not decreases, carbon dioxide levels.

73. Which of the following statements about air pollution are correct?

1. It is caused by industrial emissions and vehicle exhaust.
2. Air pollution has no significant impact on human health.
3. It can be controlled by using cleaner fuels like CNG.
4. Deforestation has no role in air pollution.

- (a) 1 and 3
- (b) 2 and 4
- (c) 1, 2 and 3
- (d) 1, 3 and 4

Ans :

COMP 2018

- (a) 1 and 3

Air pollution is caused by industrial and vehicular emissions, but using cleaner fuels like CNG can help reduce it. Deforestation contributes to air pollution and it significantly affects human health.

74. Which of the following statements about water pollution are correct?

1. Water pollution is mainly caused by industrial wastewater and domestic sewage.
2. Use of chemical fertilizers does not contribute to water pollution.
3. Contaminated water adversely affects aquatic life and humans.
4. Recycling industrial wastewater can help reduce water pollution.

- (a) 1 and 3
- (b) 1, 3 and 4
- (c) 2 and 4
- (d) 1, 2 and 3

Ans :

OD 2019

- (b) 1, 3 and 4

Water pollution is caused by industrial and domestic waste, chemical fertilizers and pesticides. It harms aquatic life, but recycling industrial wastewater can reduce its effects.

75. Which of the following statements about soil erosion are correct?

1. Soil erosion is caused by deforestation and overgrazing.
2. Excessive rains and floods contribute to soil erosion.
3. Soil erosion improves agricultural productivity.
4. Afforestation can help in controlling soil erosion.

- (a) 1, 2 and 4
- (b) 1 and 3
- (c) 2 and 3
- (d) 1, 2, 3 and 4

Ans :

FOREIGN 2020

- (a) 1, 2 and 4

Soil erosion is caused by deforestation, overgrazing and floods. Afforestation helps prevent it, but it reduces rather than improves agricultural productivity.

76. Which of the following statements about the Forest (Conservation) Act, 1980, are correct?

1. It aims to conserve forest resources by preventing their diversion for non-forest purposes.
2. The act promotes deforestation for industrial growth.
3. It ensures stricter control over the use of forest land.
4. The act helps maintain the ecological balance.

- (a) 1, 2 and 3
- (b) 1 and 4
- (c) 1, 3 and 4
- (d) 2, 3 and 4

Ans :

DELHI 2021

- (c) 1, 3 and 4

The Forest (Conservation) Act conserves forest land, ensures stricter control and maintains ecological balance, but it discourages deforestation for industrial growth.

What is a key environmental issue caused by deforestation?

- (a) Increase in biodiversity
- (b) Soil erosion and climate change
- (c) Decrease in agricultural productivity
- (d) Improvement in air quality

Ans :

OD 2000

- (b) Soil erosion and climate change

Deforestation causes soil erosion and increases carbon dioxide levels, contributing to climate change and ecological imbalance.

- 85.** Air pollution is caused by vehicle emissions and industrial processes, leading to health problems. Sustainable practices, such as using cleaner fuels like CNG, can help reduce air pollution.

What is one of the solutions to air pollution mentioned in the passage?

- (a) Using bio-compost in agriculture
- (b) Promoting cleaner fuels like CNG
- (c) Recycling industrial waste
- (d) Banning public transport

Ans :

FOREIGN 2001

- (b) Promoting cleaner fuels like CNG

The passage mentions CNG as a cleaner fuel that helps reduce vehicle emissions and air pollution.

- 86.** Noise pollution is primarily caused by urbanization and mechanization, leading to adverse effects on human health and well-being.

What are the main sources of noise pollution as per the passage?

- (a) Urbanization and mechanization
- (b) Deforestation and soil erosion
- (c) Agricultural activities
- (d) Water pollution from industrial waste

Ans :

OD 2005

- (a) Urbanization and mechanization

The passage identifies urbanization and mechanization as the key contributors to noise pollution.

- 87.** Water pollution occurs due to contamination by domestic sewage, industrial waste and agricultural chemicals. This affects both aquatic life and human health.

What is a major cause of water pollution as per the passage?

- (a) Deforestation
- (b) Agricultural chemicals and sewage
- (c) Noise pollution from machinery
- (d) Increased biodiversity

Ans :

DELHI 2002

- (b) Agricultural chemicals and sewage

The passage highlights agricultural chemicals and sewage as primary causes of water pollution, harming aquatic life and human health.

- 88.** Soil erosion occurs when surface soil is washed away by heavy rains or floods. Deforestation is a significant contributor to soil erosion as it removes the vegetation that holds soil in place.

What is the main factor contributing to soil erosion according to the passage?

- (a) Urbanization
- (b) Deforestation
- (c) Industrialization
- (d) Overgrazing

Ans :

SQP 2003

- (b) Deforestation

The passage identifies deforestation as the main cause of soil erosion due to the loss of vegetation cover.

- 89.** India faces water pollution due to industrial waste, domestic sewage and agricultural runoff. This leads to contamination of water bodies and negatively impacts ecosystems.

What are the main sources of water pollution mentioned in the passage?

- (a) Deforestation and urbanization
- (b) Industrial waste and agricultural runoff
- (c) Mining activities and soil erosion
- (d) Overuse of renewable resources

Ans :

COMP 2004

- (b) Industrial waste and agricultural runoff

The passage specifically mentions industrial waste, domestic sewage and agricultural runoff as major causes of water pollution.

- 90.** The Forest (Conservation) Act, 1980, aims to prevent deforestation by restricting the diversion of forest land for non-forest purposes.

What is the main objective of the Forest (Conservation) Act, 1980?

- (a) Encouraging deforestation for economic growth
- (b) Restricting forest land use for non-forest purposes
- (c) Promoting industrialization in forest areas
- (d) Allowing mining activities in forested regions

Ans :

FOREIGN 2006

- (b) Restricting forest land use for non-forest purposes

The passage explains that the act aims to conserve forests by limiting their use for purposes other than forestry.

91. Loss of biodiversity refers to the decline in the variety of species in an ecosystem. This disrupts ecological balance and reduces the availability of natural resources.

What does loss of biodiversity result in, as mentioned in the passage?

- (a) Improved ecological balance
- (b) Decline in natural resource availability
- (c) Increased agricultural productivity
- (d) Enhanced industrial growth

Ans :

DELHI 2007

- (b) Decline in natural resource availability

The passage highlights how biodiversity loss disrupts ecological balance and reduces natural resource availability.

92. Global warming is caused by greenhouse gas emissions from burning fossil fuels, deforestation and methane from animal waste.

What is a major cause of global warming mentioned in the passage?

- (a) Increased biodiversity
- (b) Reduction in carbon emissions
- (c) Greenhouse gases from fossil fuels
- (d) All of these

Ans :

SQP 2008

- (c) Greenhouse gases from fossil fuels

The passage identifies emissions from burning fossil fuels as a significant contributor to global warming.

93. Sustainable development focuses on balancing economic growth with environmental protection. It encourages renewable resource use and limits pollution to within the environment's carrying capacity.

What is the goal of sustainable development as per the passage?

- (a) Maximizing resource extraction
- (b) Balancing economic growth and environmental protection
- (c) Encouraging deforestation for industrial growth
- (d) Eliminating industrial development

Ans :

COMP 2009

- (b) Balancing economic growth and environmental protection

The passage states that sustainable development aims to balance economic growth with the need for environmental sustainability.

ONE MARK QUESTIONS

94. What is environment?

Ans :

OD 2000

The total planetary inheritance and all resources collectively form the definition of Earth's wealth.

95. What is environmental crisis?

Ans :

FOREIGN 2001

This occurs when the environment cannot perform its essential functions due to waste generation exceeding its carrying capacity.

96. What do you mean by biotic elements?

Ans :

DELHI 2002

Living components such as birds, animals, plants and fisheries are classified as biotic elements.

97. What are abiotic elements?

Ans :

SQP 2003

Non-living components like air, water and land are known as abiotic elements.

98. What do you mean by "carrying capacity" of the environment?

Ans :

COMP 2004

It means resource extraction must not exceed regeneration rates and waste generation must stay within the environment's absorption capacity.

99. Identify the two main environmental issues facing the world.

Ans :

OD 2005

Global warming refers to the Earth's rising temperatures, while ozone depletion signifies the thinning of the ozone layer.

100. Why have some resources become extinct?

Ans :

FOREIGN 2006

Certain resources have vanished due to extraction exceeding their regeneration rate.

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TWO MARK QUESTIONS

- 101.** Mention one gas responsible for damage to the ozone layer.

Ans : DELHI 2007
CFC

- 102.** Mention two main causes of Global Warming.

Ans : SQP 2008
Burning fossil fuels and deforestation are major causes of environmental degradation.

- 103.** What is the meaning of air pollution?

Ans : COMP 2009
Air pollution is the presence of harmful materials in the air at concentrations detrimental to humans and the environment.

- 104.** What is land degradation?

Ans : OD 2010
Environmental degradation refers to the deterioration in the quality of soil, water, or vegetation, often caused by human activities.

- 105.** Define the Carrying capacity of environment.

Ans : FOREIGN 2011
Carrying capacity of the environment means resource extraction aligns with the regeneration rate, ensuring wastes produced remain within the environment's capacity to absorb them.

- 106.** Define the Sustainable Development.

Ans : DELHI 2020
Sustainable development is a strategy that fulfills present needs without compromising the ability of future generations to meet their own needs.

- 107.** Define the Bio-composting.

Ans : SQP 2020
Bio-composting is the process of transforming organic matter into compost, widely adopted by farmers for sustainable agriculture.

- 108.** Why is ozone layer significant?

Ans : OD 2012
The ozone layer, located 20-60 kilometers above Earth's surface, is a concentrated layer of ozone. It safeguards life by absorbing harmful ultraviolet rays, preventing their entry to Earth's surface.

- 109.** What is the significance of the Forest (Conservation) Act, 1980?

Ans : FOREIGN 2013
The Forest (Conservation) Act, 1980, is significant as it prevents the diversion of forest land for non-forest purposes, ensuring conservation. It protects biodiversity, maintains ecological balance and reduces the adverse impacts of deforestation, such as habitat loss, soil erosion and climate change. This act is a crucial step toward sustainable environmental management.

- 110.** Water pollution poses a significant threat to India's ecosystems and public health. Understanding its root causes is essential to develop effective solutions. What are the main causes of water pollution in India?

Ans : DELHI 2014
Water pollution in India is mainly caused by domestic sewage, industrial waste and agricultural runoff containing chemicals and pesticides. These pollutants degrade water quality, harming aquatic ecosystems, reducing biodiversity and posing health risks to humans. Poor waste management and lack of treatment facilities exacerbate the problem, impacting rural and urban water sources.

- 111.** What is meant by sustainable development?

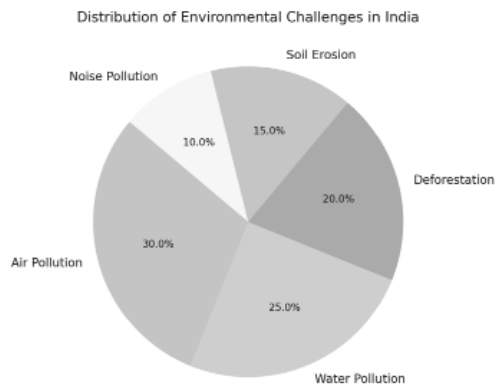
Ans : SQP 2015
Sustainable development refers to a balanced approach to economic growth while ensuring environmental protection. It emphasizes the responsible use of renewable resources, finding alternatives to non-renewable resources and maintaining the environment's carrying capacity. This ensures the needs of current generations are met without compromising the ability of future generations to meet their own needs.

- 112.** What are the consequences of deforestation?

Ans : COMP 2016
Deforestation results in biodiversity loss, soil erosion and increased carbon dioxide levels, contributing to climate change. It disrupts ecological balance, reduces natural resources and leads to habitat destruction. Additionally, it affects water cycles and exacerbates desertification, significantly impacting agriculture

According to the bar graph, burning fossil fuels has the highest percentage contribution to environmental degradation compared to other causes.

81. The pie chart shows the distribution of major environmental challenges in India and their percentage contributions to environmental degradation.



Which environmental challenge contributes 30% to the total environmental degradation, as shown in the pie chart?

- (a) Water Pollution
- (b) Air Pollution
- (c) Deforestation
- (d) Soil Erosion

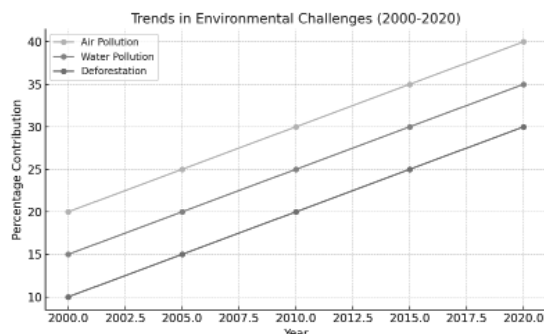
Ans :

DELHI 2011

- (b) Air Pollution

The pie chart indicates that air pollution contributes the highest percentage (30%) among the listed environmental challenges.

82. The line graph shows trends in environmental challenges (air pollution, water pollution and deforestation) over the years from 2000 to 2020, represented as their percentage contributions.



According to the line graph, which environmental challenge shows the highest increase in percentage

contribution from 2000 to 2020?

- (a) Air Pollution
- (b) Water Pollution
- (c) Deforestation
- (d) All challenges increased equally

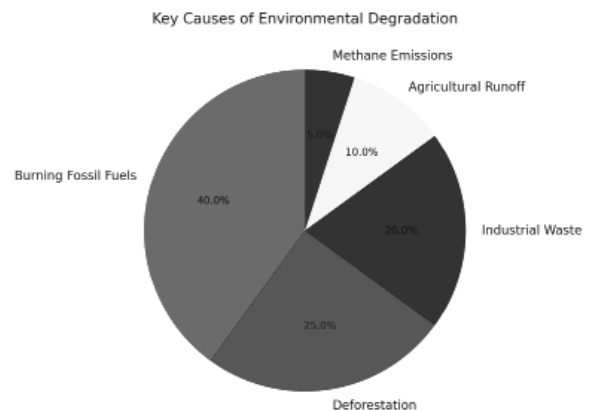
Ans :

COMP 2013

- (a) Air Pollution

The line graph shows that air pollution increased from 20% in 2000 to 40% in 2020, which is the highest increase compared to water pollution and deforestation.

83. The pie chart represents the key causes of environmental degradation and their percentage contributions.



Which of the following causes contributes the least to environmental degradation as shown in the pie chart?

- (a) Methane Emissions
- (b) Agricultural Runoff
- (c) Industrial Waste
- (d) Deforestation

Ans :

SQP 2012

- (a) Methane Emissions

The pie chart indicates that methane emissions have the lowest contribution (5%) among the listed causes of environmental degradation.

PASSAGE BASED QUESTION

84. Deforestation is the removal of forest cover, which leads to biodiversity loss and disrupts the ecological balance. It also contributes to soil erosion and increases carbon dioxide levels in the atmosphere.

2.	There is a continuous supply of these resources.	The supply of these resources might get exhausted after they become extinct.
3.	For example, trees, fishes etc.	For example, fossil fuels like coal, gas etc.

- 119.** Biodiversity is vital for maintaining ecological balance and supporting life on Earth. It encompasses the variety of living organisms and their interactions within ecosystems. What is biodiversity? Why is it considered an important resource?

Ans :

COMP 2021

Biodiversity comprises various plants, animals and microorganisms and holds immense importance:

1. It enhances natural beauty.
 2. It serves as a source of medicines, derived from plants, animals and microorganisms.
 3. It supports agricultural productivity.
 4. It plays a vital role in maintaining ecological balance and systems.
- 120.** Why are the opportunity costs of negative environmental impact considered to be high?

Ans :

OD 2022

Opportunity cost refers to the value of the next best alternative sacrificed when a choice is made. Environmental degradation, stemming from rapid economic development, has escalated government financial commitments. Issues like global warming and ozone depletion have deteriorated air and water quality, leading to higher health-related expenditures.

- 121.** “The developmental activities in India have resulted in pressure on its finite natural resources, besides creating impacts on human health and wellbeing.” Explain the statement.

Ans :

FOREIGN 2023

India's environmental threats arise from poverty, affluence and rapid industrial growth. Key concerns include air pollution, water contamination, soil erosion, deforestation and wildlife extinction. Improved living standards, economic growth and technological advancements have polluted air and water, worsening their quality. This has led to increased respiratory and waterborne diseases. Overextraction and indiscriminate resource use

have further escalated the environmental crisis.

- 122.** What happens when the wastes generated are beyond the absorptive capacity of the environment?

Ans :

OD 2022

Absorptive capacity is the environment's ability to absorb degradation. Excessive waste generation has brought us to an environmental crisis. Past development has heavily polluted and depleted rivers and aquifers, turning water into a highly valued resource. Additionally, intensive extraction of renewable and non-renewable resources has led to their exhaustion, forcing significant expenditures on technology and research to discover alternative resources.

- 123.** India's environmental problems pose a “dichotomy”. How?

Ans :

SQP 2023

India faces a dual environmental challenge, where poverty and affluence create a vicious cycle of degradation. Poverty drives deforestation for fuel, overgrazing, water pollution and forest encroachment. Conversely, affluent lifestyles increase demand for goods, leading to higher production and greater resource exploitation. Vehicle use and industrial activity escalate pollution, worsening environmental degradation. Additionally, high consumption and production standards in developed nations generate waste that exceeds the environment's absorptive capacity, intensifying the crisis.

- 124.** Explain how Bio-composting can be helpful in achieving the objectives of sustainable development.

Ans :

COMP 2022

The Green Revolution led farmers to heavily use chemical fertilizers and pesticides to boost yields. However, these chemicals have caused contamination in agricultural produce, dairy, fish, soil and water, including groundwater. Recognizing these adverse effects, farmers are increasingly turning back to organic compost made from various waste materials. Cow dung, a vital fertilizer and soil enhancer, is now widely adopted. Additionally, earthworms are utilized to accelerate the composting process, making organic composting a popular and sustainable practice once again.

- 144.** Read the paragraph given below and answer the questions that follow:

Today's environmental problems are often linked to private consumption. The Government's strategy for sustainable consumption emphasizes collaboration with municipalities, businesses and civil society to help consumers make sustainable choices. Increasing public knowledge about the environmental impact of consumption and fostering cooperation at all societal levels are key focus areas.

Schools are pivotal in educating children about consumption and its environmental effects. The Swedish Consumer Agency is proposed to work with other actors to support teaching in this area and promote eco-smart consumption. This includes encouraging sustainable lifestyles through measures like 'nudging' consumers to choose environmentally friendly alternatives.

Efforts to prevent waste focus on food, textiles, electronics and construction materials. The Swedish Environmental Protection Agency has developed a revised waste management plan for 2018-2023. Additionally, new regulations require major companies to report their sustainability efforts, recognizing the financial sector's role in achieving sustainability goals.

On the basis of given text answer the following questions:

- (i) The following needs to be done to achieve the goal of sustainable development:
 - (a) the rate of depletion of non-renewable resources should not exceed the rate of creation of renewable substitutes
 - (b) prices of cleaner fuels should be increased to impress their importance on the public
 - (c) both (a) and (b)
 - (d) neither (a) nor (b)
- (ii) Sustainable consumption is necessary for sustainable development because:
 - (a) only then the overall stock of capital assets can rise over time
 - (b) It maintains the ability of the future generations to meet their own needs
 - (c) both (a) and (b)
 - (d) neither (a) nor (b)
- (iii) Sustainable consumption leads to
 - (a) environmental upgradation
 - (b) decreasing resource efficiency
 - (c) low standards of living
 - (d) Increase in poverty

- (iv) Following is not a feature of sustainable development:

- (a) rise in per capita income and welfare of both present and future generations.
- (b) focus on the protection of environment
- (c) focus on passing of laws to promote sustainable development
- (d) emphasis on the rational use of natural resources

Ans :

- (i) (a) the rate of depletion of non-renewable resources should not exceed the rate of creation of renewable substitutes
- (ii) (c) both (a) and (b)
- (iii) (a) environmental upgradation
- (iv) (c) focus on passing of laws to promote sustainable development

- 145.** Read the paragraph given below and answer the questions that follow:

Sustainable development is often associated with the color green, emphasizing its connection to environmental protection. At the 1992 Earth Summit in Rio de Janeiro, world leaders recognized that social and economic progress must go hand-in-hand with environmental sustainability, as advancing one without the other leads to failure. Sustainable development encompasses health, education, jobs and ecosystems, promoting inclusion and addressing social inequality, intolerance and violence.

It focuses on transforming impoverished communities into informed, educated and productive societies while generating wealth that fosters equality and opportunity. Sustainable development respects planetary boundaries in consumption and production while promoting tolerance and human rights.

Building on the work of economists like Amartya Sen and Mahbul-ul-Haq and the Human Development Report of 1990, the UNDP has advocated alternative measures of progress, including the Human Development Index (HDI). Efforts are underway to adjust the HDI to include environmental sustainability, enabling better tracking of progress toward sustainable development. This remains a shared global goal.

On the basis of given text answer the following questions:

Ans :

DELHI 2019

India faces significant environmental challenges, primarily land degradation and biodiversity loss:

1. **Land Degradation:** This refers to a decline in land productivity caused by human-induced processes. Factors include deforestation, overgrazing, forest fires, unsustainable resource extraction, improper irrigation and soil management, excessive pesticide use and poverty. These practices lead to temporary or permanent loss of land fertility.
2. **Biodiversity Loss:** This involves the extinction of plant and animal species, disrupting ecosystems and causing economic and social costs. Biodiversity supports ecosystems by binding organisms in interdependent networks. Key contributors to biodiversity loss are deforestation, overpopulation, resource overuse, climate change and natural disasters. Human activities often harm ecosystems, accelerating this loss.

- 129.** Sustainable development is a crucial concept aimed at harmonizing economic, social and environmental goals to ensure long-term well-being. It focuses on preserving resources and promoting equity for future generations. What is Sustainable Development? Discuss its features.

Ans :

Sustainable development is a strategy that ensures resource management to enhance long-term well-being, meeting present needs without compromising the future generations' ability to meet theirs. Key features include:

1. **Sustained Income Growth:** Ensures a continuous rise in real per capita income and economic welfare for current and future generations.
2. **Rational Resource Use:** Advocates utilizing natural resources responsibly to improve present living standards without diminishing future potential.
3. **Environmental Protection:** Highlights considering environmental costs in development, allowing resource use while preserving sufficient resources for future generations, maintaining ecological balance.

- 130.** 'Stimulating public mode of transportation may lead to promote sustainable development.' Explain with valid arguments.

Ans :

SQP 2022

Air pollution in India is prevalent in urban areas due to industrial activities, thermal power plants and heavy vehicular traffic. Unplanned urbanization has led to a surge in registered vehicles, significantly worsening air quality and contributing to ozone depletion and climate change. Sustainable transport is essential to address these challenges, offering mobility while supporting economic and social development with minimal environmental impact. It should be safe, affordable, efficient and eco-friendly. Encouraging public transportation, such as Delhi Metro, trains and Bus Rapid Transit Systems (BRTS), over private vehicles is crucial for promoting sustainable development and reducing emissions.

- 131.** Sustainable development is essential for balancing economic growth with environmental preservation and social equity. It ensures that the needs of the present are met without compromising future generations. Discuss any four suitable strategies for sustainable development.

Ans :

COMP 2021

Strategies for sustainable development include:

1. **Restricting Renewable Resource Use :** Sustainable development requires limiting the use of renewable resources to ensure extraction does not exceed regeneration rates. Emphasis is placed on adopting non-renewable energy sources like solar, wind and water energy.
2. **Cleaner Fuels:** The promotion of Compressed Natural Gas (CNG) in urban public transport, especially in Delhi, exemplifies this. In rural areas, LPG and gohar gas are encouraged to reduce reliance on wood and biomass, preserving the environment.
3. **Mini Hydel Plants:** These eco-friendly plants in mountainous regions utilize perennial streams to power small turbines, generating local electricity sustainably.
4. **Biocomposting:** By recycling plant matter into organic fertilizers, biocomposting supports organic farming and mitigates the harmful effects of chemical pesticides and fertilizers on land and water.

- 132.** What are the prerequisites for achieving development that will allow all future generations to have a potential average quality of life that is at least as high as that is being enjoyed by the current generation?

Ans :

OD 2018

FOUR MARKS QUESTIONS

- 125.** “Serious concerns over the climate change is taking over the attention of the world.”

In the light of the above statement and given image, discuss any two strategies to tackle this global - concern of Environmental degradation.



Ans :

DELHI 2023

Environmental degradation has severe implications, including the depletion of natural and human capital. The rise in greenhouse gases since the industrial revolution has intensified global warming, necessitating urgent interventions. To ensure sustainable development, certain strategies are crucial:

1. **Non-conventional Energy Sources:** India's reliance on thermal and hydro power plants causes environmental harm. Utilizing its significant wind and solar energy potential can provide eco-friendly electricity alternatives.
 2. **Gas Utilization:** Rural households often use wood and biomass fuels, leading to deforestation and pollution. Government initiatives like subsidized LPG and promotion of gohar gas plants are addressing this. In urban areas, CNG adoption for public transport significantly reduces air pollution.
- 126.** Environment, which is the sum of all external forces surrounding us, performs various functions. Under which conditions will it not be able to perform its vital functions and what will be its impact?

Ans :

FOREIGN 2022

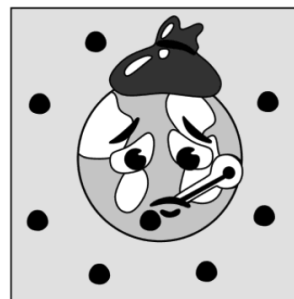
The environment encompasses the surroundings and resources influencing human life quality. As defined by the Environment (Protection) Act, 1986, it includes water, air, land and their

interrelationships with living beings and property. It serves four vital functions:

1. **Resource Supply:** Provides renewable (e.g., trees, fish) and non-renewable (e.g., fossil fuels) resources.
2. **Waste Assimilation:** Absorbs waste from production and consumption activities.
3. **Aesthetic Services:** Offers visual appeal through natural scenery, enhancing life quality.
4. **Life Sustenance:** Provides essentials like air, water and sunlight.

These functions depend on the environment's carrying capacity—resource extraction below regeneration rates and waste within absorption limits. Exceeding these limits leads to crises marked by resource depletion, diseases and costly research. Rising populations and consumption worsen the crisis, emphasizing sustainable practices.

- 127.** Interpret the situation of earth as depicted in the given picture, with reference to current environment challenges.



Ans :

OD 2023

The image portrays the critical environmental issue of global warming, marked by a gradual rise in Earth's lower atmosphere temperature due to elevated levels of carbon dioxide and greenhouse gases. Key contributors include fossil fuel combustion and deforestation. Global warming leads to severe consequences such as rising sea levels, coastal flooding and species extinction. Similarly, ozone depletion exacerbates environmental challenges by increasing UV radiation exposure, harming living organisms. Both issues demand urgent action to mitigate their widespread impacts on ecosystems and human life.

- 128.** Discuss any two major challenges to India's environment.

3.	It overlooks the exploitation of natural capital	It takes into account the rational utilisation of natural capital to protect the interests of future generations.
4.	This concept is mainly used in reference to under-developed economies.	This concept is important for both developed and underdeveloped economies.
5.	It lays special stress on the structural, technical and institutional changes in the economy.	It lays stress on social awareness and responsibilities over a period of time for economic development.

CASE BASED QUESTION

136. Read the following text carefully:

India has aimed to reduce the country's carbon intensity by approximately 45% by 2030. To achieve this 'Green finance' plays a vital role. At the initial stages, green finance needs a big push from the government. The Indian government has identified projects worth ₹25,000 crore that will be financed by proceeds from Sovereign Green Bonds.

According to the framework approved by finance ministry, the sovereign green bonds will focus on financing public projects including renewable energy, climate change, clean transportation, sustainable water and waste management and pollution control.

Businesses that take green finance can get benefit in various ways. It can help them follow different environmental norms and regulations and thus avoid possible fines. Adopting sustainable developmental practices enhances brand value of businesses. Customers tend to prefer brands that adopt clear sustainable development practices. The energy-efficient and other sustainable development practices promoted by green finance also often help in saving cost, boosting profitability of businesses etc.

—The Economic Times, April 22, 2023 (Modified)

On the basis of given text and common understanding, answer the following questions:

- Define sustainable development.
- State the public project areas, where Sovereign Green Bond are focussed.
- How can businesses get benefit from green finance?

Ans :

OD 2024

- Sustainable development is the development that meets the need of the present generation without harming the ability of the future generation to meet their own needs.
- The Sovereign Green Bonds focus on financing public projects such as renewable energy, climate change, clean transportation, sustainable water and waste management and pollution control.
- Green finance can benefit businesses in the following ways:
 - It can help them follow different environmental norms and regulations and thus avoid possible fines.
 - Adopting sustainable developmental practices enhances brand value of businesses.
 - The energy-efficient and other sustainable development practices help in saving costs and boosting profitability of businesses.

137. "We are One-Earth, One Family and we share One Future." is the opening sentence of the G-20 New Delhi Leaders' Declaration Statement.

In this statement the leaders pledged to "resolve to fully and effectively implement the 2030 Agenda and the Sustainable Developmental Goals (SDGs)". The leaders' commitments contained in the Declaration statement reflect, "the philosophy of living in harmony with our surrounding ecosystem".

The Declaration recognises the "Cascading challenges and crisis that have reversed gains" on the 2030 Agenda of SDGs.

The leaders "affirm that no country should have to choose between fighting poverty and fighting for our planet".

The leaders resolved to act

- accelerate strong, sustainable, balanced and inclusive growth;
- accelerate the full and effective implementation of 2030 Agenda
- pursue low-carbon and environmentally sustainable development pathways;
- Pursue reforms for better, comprehensive and more effective finance avenues.

The leaders commit to "taking collective actions

- (iii) Identify the function performed by environment:
- supplying both renewable and non-renewable resources
 - preventing global warming
 - promoting sustainable development
 - promoting cleaner technologies
- (iv) Identify the correct pair of statements from the given statements in column I and II:

	Column I		Column II
1.	Cause of environmental degradation	A.	rational use of environmental resources
2.	Feature of sustainable development	B.	assimilating waste
3.	Strategy of sustainable development	C.	use of non-conventional sources of energy
4.	Function of environment	D.	increasing urbanization

- 1-A
- 2-B
- 3-C
- 4-D

Ans :

- (b) increasing dependence on thermal energy plants
- (c) both (a) and (b)
- (a) supplying both renewable and non-renewable resources
- (c) 3-C

- 141.** Read the paragraph given below and answer the questions that follow:

India has phased out major ozone-depleting substances (ODS), fulfilling all obligations under the Montreal Protocol with the help of technical and financial assistance, according to Union Minister Ashwini Choubey. He attributed this success to the active involvement of stakeholders like industries, research institutions, line ministries and consumers at both planning and implementation levels.

Choubey highlighted the Kigali Amendment, recently ratified by India, emphasizing the need to address industrial obsolescence and economic impacts while developing a hydrofluorocarbon phase-down strategy. He also launched an action plan to implement recommendations from the

India Cooling Action Plan (ICAP) for space cooling in buildings, developed after thorough stakeholder discussions and mapping of ICAP recommendations.

On the basis of given text answer the following questions:

- _____ refers to the phenomenon of reduction in the amount of ozone in the stratosphere.
- The opportunity cost of negative environmental impacts is high which has the following implications:
 - we have been compelled to spend more on discovering new resources
 - health costs due to degraded environment have been rising
 - pollution and drying up of rivers has made water an economic good
 - all of the above
- The problem of ozone depletion is caused by high levels of _____ and _____ compounds in the stratosphere.
- The compounds identified in Question 42 originate from _____.
 - Oxygen
 - Carbon dioxide
 - Chlorofluorocarbons
 - None of the above.

Ans :

- Ozone depletion
- (d) all of the above
- Chlorine, Bromine
- (c) Chlorofluorocarbons

- 142.** Read the paragraph given below and answer the questions that follow:

India's rank on the 17 Sustainable Development Goals (SDGs) has dropped two places to 117 in 2021, compared to 115 last year, according to the State of India's Environment Report 2021. The decline is attributed to challenges in areas like ending hunger (SDG 2), achieving gender equality (SDG 5) and building sustainable infrastructure (SDG 9).

India, with an overall SDG score of 61.9 out of 100, ranks below Bhutan, Nepal, Sri Lanka and Bangladesh among South Asian nations. The 2030 Agenda for Sustainable Development, adopted in 2015 by all UN Member States, provides a framework of 17 SDGs as a universal call to action for global peace and prosperity.

generations to meet their own needs.”

While this definition encapsulates the concept, numerous initiatives are essential to achieve this vital global goal. Over the last two decades, economic progress has often come at the cost of the environment, with natural resources being exploited in inefficient and wasteful ways. This has led to severe consequences like declining air quality and climate change.

Sustainable development is a strategic approach that promotes growth while prioritizing efficient resource use, ensuring both immediate and long-term benefits for the planet and its inhabitants.

There are 3 primary objectives of sustainable development:

- (a) Economic growth – building a strong, competitive economy, by ensuring that sufficient land of the right type is available at the right places and at the right time to support growth and innovation; and identifying and coordinating development requirements.
- (b) Environmental protection – contributing to protecting and enhancing our natural and developed environment, while helping to improve biodiversity, use natural resources wisely, minimizing waste and pollution and adapting to and helping to decrease climate change, including a global shift to low-carbon economy.
- (c) Social inclusion – supporting strong, vibrant and healthy communities by providing the supply of housing required to meet the needs of present and future generations; and by creating a high-quality of development, with accessible local services that reflect the community's needs and support its health, social and cultural well-being.

On the basis of given text answer the following questions:

- (i) Following is a feature of sustainable development:
 - (a) Sustains rise in per-capita income
 - (b) providing education to all
 - (c) Rational use of the natural resources.
 - (d) Both (a) and (c)
- (ii) Substituting _____ resources with _____ resource is a pre-requisite of sustainable development.
- (iii) The Central Pollution Control Board (CPCB) was set up by the government to address the

problem of _____ in year _____.

- (iv) _____ plants can be set up to use the energy of streams flowing from hilly areas to move small turbines.

Ans :

- (i) (d) Both (a) and (c)
- (ii) Non-renewable, renewable.
- (iii) Water and air pollution, 1974.
- (iv) Mini-Hydel

- 140.** Read the paragraph given below and answer the questions that follow:

Air pollution in India causes annual financial losses of ₹7 lakh crore (\$95 billion), as revealed by a recent report. Beyond health impacts, it quantifies the economic toll on businesses through six pathways: reduced labour productivity, diminished consumer footfall, premature mortality, lower asset productivity, increased health expenses and non-market welfare loss.

Direct impacts include premature mortality, productivity loss and reduced consumer footfall. Poor air quality discourages shoppers, causing revenue and potential reputation loss, while international tourists often reconsider visiting India due to pollution concerns. Premature mortality also imposes a significant opportunity cost.

Indirect impacts involve increased healthcare costs and non-market welfare loss, with higher pollution driving up hospitalizations and limiting workers' ability to engage in non-work activities like caregiving. If left unaddressed, air pollution will continue to harm health and businesses nationwide.

On the basis of given text answer the following questions:

- (i) From the following, identify the factor which will lead to more air pollution:
 - (a) promotion of public transport in place of private vehicles
 - (b) increasing dependence on thermal energy plants
 - (c) use of cleaner fuels in households
 - (d) promotion of cleaner technologies and strengthening of emission standards
- (ii) The following are major contributors to air pollution in India?
 - (a) use of fossil fuels in industries
 - (b) bio fuels like cow dung
 - (c) both (a) and (b)
 - (d) neither (a) nor (b)

Achieving development that meets present needs without compromising future generations requires the following:

1. **Population Growth Control:** Population must be kept within the environment's carrying capacity to prevent overburdening resources.
2. **Sustainable Use of Renewable Resources:** Renewable resources should be extracted sustainably, ensuring their regeneration rate exceeds usage.
3. **Pollution Control:** Emissions must be limited to the environment's absorptive capacity to avoid long-term damage.
4. **Technological Advancement:** Technology should focus on input efficiency, maximizing output per unit of input to reduce resource exploitation.
5. **Resource Substitution:** Non-renewable resources should be gradually replaced by renewable alternatives, aligning depletion rates with renewable growth.

- 133.** Environment sustains life, assimilates waste and offers resources for production. Discuss measures which can help in protecting environment.

Ans :

FOREIGN 2017

The environment sustains life through essential functions, but its degradation has severe consequences, including the loss of natural and human capital. Priority measures to address environmental degradation include:

1. **Population Control:** Reducing population growth to align with the environment's carrying capacity.
2. **Solid Waste Management:** Efficient handling, segregation, treatment and disposal of waste.
3. **Waste Recycling:** Reusing domestic and industrial waste, such as converting household waste into agricultural compost.
4. **Promoting Public Transport:** Reducing private vehicle use by improving public transport systems and raising awareness.
5. **Pollution Control:** Tightening emission norms, promoting clean technologies and minimizing chemical fertilizer use in agriculture.
6. **Social Awareness:** Educating people on environmental challenges and individual contributions.
7. **Afforestation Campaigns:** Launching extensive tree-planting drives.
8. **Poverty Eradication:** Addressing poverty to reduce environmentally harmful practices driven by basic survival needs.

- 134.** Discuss the strategies which should be adopted for achieving sustainable development.

Ans :

DELHI 2016

Sustainable development can be achieved through the following strategies:

1. **Non-conventional Energy:** Utilize India's vast potential for wind and solar energy to replace pollution-intensive thermal and hydro power.
2. **Mini Hydel Plants:** Harness perennial streams in hilly areas to generate local electricity without significant environmental disruption or high transmission costs.
3. **Use of Gases:** Replace wood and biomass with subsidized LPG in rural areas and promote CNG in urban public transport to reduce air pollution and deforestation.
4. **Adopting Traditional Practices:** Revive eco-friendly systems like Ayurveda and organic products to reduce industrial and chemical impact.
5. **Bio-compost:** Shift from chemical fertilizers to organic manure, improving soil fertility and supporting organic farming.
6. **Bio-pest Control:** Employ plant-based pesticides and mixed cropping to reduce chemical usage and environmental harm.
7. **Waste Recycling and Plastic Ban:** Promote recycling and ban plastic bags to protect ecosystems and minimize non-biodegradable waste.

- 135.** Distinguish between economic development and sustainable development.

Ans :

SQP 2015

	Economic Development	Sustainable Development
1.	It refers to long-term increase in real per capita income and economic welfare.	It refers to increase in real per capita income and economic welfare of both the present and future generations.
2.	It does not specifically take into account environmental protection.	It lays special emphasis on environmental protection.

On the basis of given text answer the following questions:

(i) Identify the correct pair.

	Column I		Column II
1.	CPCD	A.	1986
2.	Environment Protection Act	B.	1983
3.	Brundtland Commission	C.	1980
4.	Montreal Protocol	D.	1990

(ii) Sustainable development is the development that meets the needs of the present generation without compromising the ability of the future generations to meet their own needs. This definition has been given by:

- United Nations Conference on Environment and Development
- United Nations Committee on Environment and Development
- United Nations Committee on Protection of Environment
- United Nations Conference on Protection of Environment

(iii) The present generation can promote development that enhances the natural and built environment in ways that are compatible with:

- conservation of natural assets
- preservation of the regenerating capacity of the world's natural ecological system
- avoiding imposition of added costs on future generation
- all of the above

(iv) A suggested measure to achieve sustainable development is:

- technological progress
- industrialisation
- investment in human capital
- rational use of natural resources

Ans :

- 2 - B
- (a) United Nations Conference on Environment and Development
- (d) all of the above
- (d) rational use of natural resources

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143. Read the paragraph given below and answer the questions that follow:

In 2015, the United Nations General Assembly adopted the 2030 Agenda for Sustainable Development, with 193 member countries, including India, committing to 17 Sustainable Development Goals (SDGs). These goals aim to end poverty, address inequalities and combat climate change, ensuring no one is left behind.

India, playing a key role in the declaration, holds significant responsibility as it represents 17% of the global population. According to the SDG India Index by NITI Aayog and the United Nations, India scored 58, slightly above the halfway mark for the 2030 target.

The SDGs, established at the 2012 Rio de Janeiro Conference, aim to address global environmental, political and economic challenges. They build on the Millennium Development Goals (MDGs), tackling broader issues with interconnected targets, where success in one goal contributes to progress in others.

On the basis of given text answer the following questions:

(i) Technological progress should be input _____ and not input _____.

- efficient, producing
- consuming, producing
- efficient, consuming
- consuming, efficient

(ii) 'In 2015, the United Nations General Assembly adopted the 2030 Agenda for sustainable development'. What does this '2030 Agenda' mean?

- SDGs are to be achieved by the year 2030
- SDGs are to be reviewed in the year 2030
- The member countries are bound till 2030
- None of the above

(iii) _____ can be used to generate electricity in mountainous regions as a strategy of sustainable development (Wind Power/Mini-hydel Plants)

(iv) _____ is a natural process in which biodegradable matter is decomposed and converted into manure.

Ans :

- (c) efficient, consuming
- (a) SDGs are to be achieved by the year 2030
- Mini-Hydel Plants
- Bio-composting

for effective and timely implementation of the G-20 2023 Action Plan to accelerate progress on the SDGs; including through actions on eliminating hunger and malnutrition, strengthening global health and implementation of One Health approach and delivering quality education.”

On the basis of given text answer the following questions:

- (i) State and discuss the importance of collective fight in achieving SDGs.
- (ii) Discuss briefly the action plan of G-20 leaders in promoting ‘One Health’ approach.

Ans :

OD 2024

- (i) To achieve SDGs the leaders have committed to take collective actions.
 1. To effectively and timely implement the 2030 agenda.
 2. to accelerate the commitment towards the Action Plan.
 3. to achieve strong, sustainable, balanced and inclusive growth.
 4. to discover environmentally sustainable development pathway.
 5. to pursue reforms for better, comprehensive and more effective financial avenues.
- (ii) The Action Plan of G-20 leaders in promoting ‘One Health’ approach involves:
 1. accelerating the progress on the SDGs through actions on eliminating hunger and malnutrition.
 2. strengthening global health and implementation of One Health approach.
 3. delivering quality education.

138. Read the paragraph given below and answer the questions that follow:

Kerala retained its top rank in NITI Aayog’s SDG India Index 2020-21, with Mizoram, Haryana and Uttarakhand showing the most improvement since 2019. Bihar, Jharkhand and Assam ranked lowest this year.

The SDG India Index evaluates states and UTs on health, education, gender equality, economic growth, climate change and environment. Launched in December 2018, it monitors SDG progress and fosters competition among states and UTs. Developed with the United Nations in India, the index tracks performance on 115 indicators aligned with the National Indicator Framework (NIF) of the Ministry of Statistics and Programme Implementation. It aids policy-making and highlights gaps in SDG tracking, emphasizing improved statistical systems.

India’s SDG score improved from 60 in 2019 to 66 in 2020-21, driven by progress in clean water, sanitation and affordable energy. Kerala scored 75, followed by Himachal Pradesh and Tamil Nadu at 74. Among UTs, Chandigarh ranked highest with 79, followed by Delhi at 68.

On the basis of given text answer the following questions:

- (i) From the following, identify the strategy which is not suitable for promoting sustainable development:
 - (a) use of non-conventional sources of energy
 - (b) discarding old practices in agriculture and healthcare
 - (c) establishment of Mini-Hydel Plants
 - (d) use of Bio-compost
- (ii) _____ means the ability of the environment to absorb degradation without causing environmental damage.
 - (a) assimilating waste
 - (b) absorptive capacity
 - (c) both (a) and (b)
 - (d) neither (a) nor (b)
- (iii) The concept of sustainable development was emphasised by _____.
 - (a) United Nations Conference on Environment and Development
 - (b) General Assembly’s special session on environment
 - (c) UNICEF’s special session on environment
 - (d) None of the above
- (iv) State any two strategies of sustainable development, suggested by Herman Daly.

Ans :

- (i) (b) discarding old practices in agriculture and healthcare
- (ii) (b) absorptive capacity
- (iii) (a) United Nations Conference on Environment and Development
- (iv) 1. Limiting the human population to a level within the carrying capacity of the environment.
2. Technological progress should be input efficient and not input consuming.

139. Read the paragraph given below and answer the questions that follow:

The Brundtland Commission describes sustainable development as:

“Development that meets the needs of the present without compromising the ability of future

- (i) Which of the following is not one of the ways to attain the goal of sustainable development? (choose the correct alternative)
- Use of cleaner fuels
 - Use of traditional knowledge and practices
 - Spreading awareness
 - Sticking to methods to promote inequalities.
- (ii) State whether the given statement is true or false: As per the UNDP Report education and health are the broader issues of human development.
- (iii) Sustainable development and economic growth are _____ (directly/indirectly) related. (choose the correct alternative)
- (iv) Read the following statements – Assertion and Reason

Assertion : Sustainable Development is about changes that transform impoverished people, communities and countries into informed, educated, healthy and productive societies.

Reason : Sustainable Development advocates about wealth creation that generates socio-economic equality and opportunity.

Select the correct alternative from the following:

- Both Assertion and Reason are true and Reason is the correct explanation of Assertion.
- Both Assertion and Reason are true and Reason is not the correct explanation of Assertion.
- Assertion is true but Reason is false.
- Assertion is false but Reason is true.

Ans :

- (i) (d) Sticking to methods to promote inequalities.
- (ii) True
- (iii) Directly
- (iv) (a) Both Assertion and Reason are true and Reason is the correct explanation of Assertion.

NODIA

6. Introduction of Economic Reforms in Pakistan took place in year _____.

(a) 1978
(b) 1980
(c) 1988
(d) 1991

Ans :

COMP 2024

(c) 1988

7. What is a common feature in the developmental strategies of India, Pakistan and China during their initial post-independence periods, specifically in their efforts to stimulate economic growth and address social development challenges?

(a) Adoption of a purely private sector model
(b) A focus on creating a large public sector
(c) Implementation of a communal farming system in all countries
(d) Complete reliance on foreign investments

Ans :

OD 2000

(b) A focus on creating a large public sector
All three countries initially focused on creating a large public sector and raising public expenditure on social development to kick-start their economies.

8. How does China's urbanization rate compare to India and Pakistan and what does this reveal about its progress in infrastructure development and population distribution in urban areas?

(a) China has the lowest urbanization rate.
(b) China has the highest urbanization rate.
(c) India and Pakistan are equally urbanized.
(d) Pakistan leads in urbanization among the three.

Ans :

DELHI 2002

(b) China has the highest urbanization rate.
China's urbanization rate is 59%, which is higher compared to India's 34% and Pakistan's 37%, reflecting better development in urban infrastructure.

9. What were the main drivers of Pakistan's economic growth during the 1980s and how did they contribute to creating a favorable environment for new investments?

(a) Nationalization of all industries
(b) Mechanization through the Green Revolution
(c) Financial assistance from Western countries and remittances
(d) Dependence solely on industrial exports

Ans :

SQP 2003

(c) Financial assistance from Western countries and remittances

During this period, Pakistan received substantial remittances from workers in the Middle East and financial assistance from Western countries, accelerating economic growth.

10. Which of the following statements about the sectoral distribution of the workforce in 2018-2019 highlights the differences in economic structure and employment patterns among India, China and Pakistan?

(a) Agriculture employs the majority in all three countries.
(b) The service sector employs the majority in India and Pakistan.
(c) Industrial employment is highest in China among the three countries.
(d) Agriculture's workforce percentage is higher in China than in India.

Ans :

COMP 2004

(c) Industrial employment is highest in China among the three countries.

China's workforce in the industrial sector stands at 28%, which is higher than India's 25% and Pakistan's 24%, reflecting its status as a manufacturing hub.

11. Among the three countries, India, China and Pakistan, which country has the lowest Human Development Index (HDI) value and what does it indicate about the progress of human development?

(a) India
(b) China
(c) Pakistan
(d) All have the same HDI

Ans :

OD 2005

(c) Pakistan

Pakistan has an HDI value of 0.557, which is lower compared to India (0.645) and China (0.761).

12. During the Great Leap Forward campaign in 1958, what specific reforms did China introduce to promote large-scale industrialization and rural economic development?

(a) Encouragement of backyard industries and collective farming
(b) The privatization of industries
(c) Adoption of the Five-Year Plan
(d) Focus on technological advancements in urban areas

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4. DEVELOPMENT PATH OF PAKISTAN

Pakistan's development path reflects a mixed economy model, balancing private and public sector initiatives. Over time, the country has adapted its policies to address economic challenges and foster growth.

1. Pakistan follows the mixed economy model where private and public sector co-existed.
2. In 1950s and '1960s, Pakistan introduced a regulated policy framework to industrialise her economy. This policy combined tariff protection for manufacturing of consumer goods with direct import controls on competing imports.
3. The introduction of Green Revolution led to mechanisation and increase in public investment in infrastructure in selected areas.
4. Nationalisation of capital goods industries took place in 1970s. Pakistan then shifted its policy orientation in the late 1970s and 1980s when the major thrust areas were denationalisation and encouragement of private sector.
5. During this period, Pakistan received financial assistance from western countries. It also started receiving remittances in a big way from the Pakistani workers settled in the Middle-East which helped accelerate the country's economic growth and created a favourable environment for new investments.

5. COMPARISON OF DEMOGRAPHIC INDICATORS

The demographic profiles of China, India and Pakistan vary significantly, reflecting differences in population size, density, growth and urbanization.

1. **Population Size** : China has the highest population, closely followed by India, while Pakistan's population is much smaller, about one-tenth of China or India.
2. **Population Density** : Despite its vast geographical area, China has the lowest population density among the three countries.
3. **Population Growth** : Pakistan has the highest population growth rate, followed by India, with China having the lowest.
4. **Sex Ratio** : All three nations exhibit a low and gender-biased sex ratio, favoring males.
5. **Fertility Rate** : China has a low fertility rate, while Pakistan's fertility rate is significantly high.
6. **Urbanization** : Urbanization is highest in China, whereas India has about 33% of its population living in urban areas..

6. Select Demographic Indicators, 2017-2018:

	Basis	India	China	Pakistan
1.	Estimated population (in million)	1352	1393	212
2.	Annual Growth of population	1.03	0.46	2.05
3.	Density (per sq. km)	455	148	275
4.	Sex ratio	924	949	943
5.	Fertility rate	2.2	1.7	3.6
6.	Urbanisation	34	59	37

7. HUMAN DEVELOPMENT INDICATORS

Human Development Index measures the average achievement in the three basic dimensions of human development which are:

1. A long and healthy life as measured by life expectancy at birth.
2. Knowledge as measured by adult literacy rate.
3. A decent standard of living as measured by per capita GDP.

8. COMPARISON OF INDIA, CHINA AND PAKISTAN IN HUMAN DEVELOPMENT INDICATORS

India, China and Pakistan show significant variations in their human development indicators. These differences highlight the progress and challenges faced by each nation in addressing income, health and social metrics.

1. **Income Indicators** : China leads in GDP per capita and has a lower proportion of population below the poverty line compared to India and Pakistan.
2. **Health Indicators** : China performs better in health metrics, including lower mortality rates, better access to sanitation, higher adult literacy rates, longer life expectancy and reduced malnourishment.
3. **Sanitation Performance** : Pakistan outperforms India in both reducing poverty and improving sanitation facilities.
4. **Poverty Ratio** : China has the lowest poverty ratio among the three nations.
5. **Maternal Mortality** : Maternal mortality rates remain high in India and Pakistan, while they are significantly lower in China.

9. SECTORAL CONTRIBUTION

In all the three economies, the industry and service sectors have less proportion of workforce, but they contribute more in terms of output.

Sectoral contribution to GVA (in %) 2018-2019

Sectors	India	China	Pakistan
Agriculture	16	7	24
Industry	30	41	19
Service	54	52	57
Total	100	100	100

10. SECTORAL DISTRIBUTION OF WORKFORCE

The workforce distribution across agriculture, industry and services highlights significant differences in the economic structures of India, China and Pakistan. The table below provides insights into their sectoral employment patterns for 2018-2019.

Sectors	India	China	Pakistan
Agriculture	43	26	41
Industry	25	28	24
Service	32	46	35
Total	100	100	100

1. In the last two decades, the contribution of agricultural sector to GDP, which employs the larger proportion of workforce in all the three countries, has declined.
2. In the industrial sector, China has maintained a double-digit growth rate, whereas for India and Pakistan, the growth rate has declined.
3. In the service sector, India and Pakistan have stagnated but China has managed to increase the rate of growth of its service sector.
4. China has emerged as the manufacturing hub of the world. China is a world leader in industrial output, consumer products, food processing and telecommunication equipments.
5. In India and Pakistan, there has been a direct shift from primary to the tertiary sector.

11. SOME SELECTED INDICATORS OF HUMAN DEVELOPMENT, 2017-2019

The table below presents a detailed comparison of the three countries on various aspects of human development, reflecting disparities in health, education, income and living standards.

	Basis	India	China	Pakistan
1.	Human Development Index (value)	0.645	0.761	0.557
2.	Rank (based on HDI)	130	87	154
3.	Life Expectancy at birth (years)	69.7	76.9	67.3
4.	Mean years of Schooling (% aged 15 and above)	6.5	8.1	5.2
5.	Gross National Income per capita (PPP US\$)	6,681	16,057	5,005
6.	Percentage of People living Below Poverty Line (National)	21.9*	1.7**	24.3*
7.	Infant Mortality Rate (per 1000 live births)	29.9	7.4	57.2
8.	Maternal Mortality Rate (per 1 Lakh births)	133	29	140
9.	Population using at least basic Sanitation (%)	60	75	60
10.	Population using a least basic drinking Water Source (%)	93	96	91
11.	Percentage of Undernourished Children	37.9	8.1	37.6

12. APPRAISAL OF DEVELOPMENT STRATEGY OF CHINA

The slow growth of the economy forced China to go in for reforms in 1978.

1. Pre Reform period:

- (a) The new leadership in China was dissatisfied with the slow pace of growth.
- (b) Despite extensive land reforms, collectivisation, the Great Leap Forward and other initiatives, the per capita grain output in 1978 was the same as it was in the mid 1950s.
- (c) There were extension of basic health services in rural areas.
- (d) Through the Commune system, there was more equitable distribution of food grains.

2. Post Reform period:

- (a) Each reform was first implemented at a smaller level and then extended on a massive scale.
- (b) Development of infrastructural facilities helped in improving the social and income indicators.
- (c) Agricultural reforms created conditions for phenomenal growth in rural industries.

13. APPRAISAL OF DEVELOPMENT STRATEGY OF PAKISTAN

In Pakistan, the reform process lead to worsening of all the economic indicators. The reasons for the slowdown of growth and re-emergence of poverty in Pakistan's economy are:

1. Agricultural growth and Food Supply situation was based on good harvest and not on institutionalized process of technical change.
2. Foreign exchange, an essential component for any economy, came from remittances from Pakistani workers in the middle-east and the exports of highly volatile agricultural products.
3. There was growing dependence on foreign loans and also difficulty in paying back the loans.
4. However, during the last few years, Pakistan has recovered its economic growth and has been sustaining it.

MULTIPLE CHOICE QUESTION

1. On the basis of the data given below, identify the incorrect statement in terms of annual growth of GDP (%): (Choose the correct alternative)
Annual Growth of Gross Domestic Product (%). 1980-2017

Country	1980-90	2015-2017
India	5.7	7.3
China	10.3	6.8
Pakistan	6.3	5.3

Alternatives:

- (a) China was able to maintain near double-digit growth during the 1980s.
- (b) Pakistan was ahead of India during 1980 - 2017.
- (c) India experienced a rapid rise in Gross Domestic Product during 2015-17.
- (d) Both China and Pakistan experienced a decline in growth rate during 2015-17.

Ans :

COMP 2024

- (b) Pakistan was ahead of India during 1980 - 2017.

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2. Pakistan is ahead of India in terms of:

- (a) access to improved sanitation
- (b) mean years of schooling
- (c) life expectancy at birth
- (d) infant mortality rate

Ans :

COMP 2024

- (a) access to improved sanitation

Economic reforms were introduced in the year _____ in India and in the year _____ in Pakistan.

- (a) 1978, 1988
- (b) 1988, 1978
- (c) 1978, 1991
- (d) 1991, 1988

Ans :

FOREIGN 2024

- (d) 1991, 1988

4. In the decade of 1970s, Pakistan nationalised its _____ industry.

- (a) Medical infrastructure
- (b) Consumer goods
- (c) Capital goods
- (d) Foreign trade

Ans :

SQP 2024

- (c) Capital goods

5. From the events given in Column-I and facts given in Column-II about China, choose the correct pair:

	Column - I		Column - II
(A)	Structural transformation	(i)	Limited Urbanisation
(B)	Great leap forward campaign	(ii)	Reduced global demand for Chinese products
(C)	Less stress of usage on natural resources	(iii)	Low density of population
(D)	Slowdown in GDP, since 2014	(iv)	Aimed at massive industrialisation

- (a) (A)-(i)
- (b) (B)-(ii)
- (c) (C)-(iii)
- (d) (D)-(iv)

Ans :

DELHI 2024

- (c) (C)-(iii)

32. Identify the incorrect statement from the following:

- (a) Only about 10% of the total land area is suitable for cultivation in China
- (b) More than 80% of the Chinese population is dependent on farming
- (c) China is the most populous country in the world
- (d) China is also called as the People's Republic of China

Ans :

OD 2020

- (b) More than 80% of the Chinese population is dependent on farming

33. The Great Leap Forward relates to:

- (a) modernising the economy
- (b) transforming the agrarian economy
- (c) adopting the process of rapid industrialization
- (d) all of the above

Ans :

FOREIGN 2021

- (d) all of the above

34. From the following, identify the strategies which were adopted both by Pakistan and India for their growth process:

- (a) creating a large public sector
- (b) increasing public expenditure on social development
- (c) promoting tertiary sector
- (d) both (a) and (b)

Ans :

DELHI 2022

- (d) both (a) and (b)

35. China is ahead of India in terms of:

- (a) life expectancy
- (b) access to improved sanitation
- (c) maternal mortality rate
- (d) all of the above

Ans :

SQP 2023

- (d) all of the above

36. China set up special economic zones to:

- (a) promote the development of backward areas
- (b) attract foreign investors
- (c) promote industrial development
- (d) promote private sector

Ans :

OD 2000

- (b) attract foreign investors

37. Identify the factors which have helped China in achieving a higher growth rate than India:

- (a) earlier initiation of reforms
- (b) adoption of one child policy
- (c) focus on the manufacturing sector
- (d) both (a) and (c)

Ans :

SQP 2001

- (d) both (a) and (c)

38. Identify the factors which led to the re-emergence of poverty in Pakistan in 1990s:

- (a) political stability
- (b) focus on manufacturing sector
- (c) majority of population living below the poverty line
- (d) growing dependence on foreign loans along with inability to pay them back

Ans :

COMP 2002

- (d) growing dependence on foreign loans along with inability to pay them back

39. Which of the following has the highest growth rate of population?

- (a) India
- (b) China
- (c) Pakistan
- (d) both (a) and (c)

Ans :

FOREIGN 2003

- (c) Pakistan

40. Under the commune system:

- (a) people set up industries in their backyards
- (b) people were allotted land separately which they cultivated
- (c) people collectively cultivated land
- (d) government hired groups of people to cultivate land owned by it

Ans :

DELHI 2004

- (c) people collectively cultivated land

41. The system of dual pricing involved:

- (a) government fixed prices for farmers and market driven prices for industrial units
- (b) farmers and industrial units buying and selling fixed quantities at prices fixed by the government
- (c) fixing separate prices for farmers and industrial units and rest of the public
- (d) different price levels depending upon the quantity being transacted by different categories of people.

Ans :

FOREIGN 2001

(a) Encouragement of backyard industries and collective farming

The Great Leap Forward aimed at large-scale industrialization and encouraged backyard industries, along with the establishment of the Commune system for collective farming in rural areas.

- 13.** What were the primary causes of Pakistan's economic challenges during its reform process and how did they impact its overall growth and stability?

- (a) Dependence on institutionalized agricultural growth
- (b) Reliance on remittances and volatile agricultural exports
- (c) Excessive investment in the industrial sector
- (d) Complete withdrawal of foreign loans

Ans :

DELHI 2007

(b) Reliance on remittances and volatile agricultural exports

Pakistan's economy faced challenges due to its dependence on remittances from the Middle East and the export of highly volatile agricultural products.

- 14.** Considering the sectoral contribution to GDP in 2018-2019, which country had the highest contribution from the service sector and what does this indicate about its economic structure?

- (a) India
- (b) China
- (c) Pakistan
- (d) All have equal contribution

Ans :

SQP 2006

(c) Pakistan

Pakistan's service sector contributed 57% to its GDP, higher than India (54%) and China (52%).

- 15.** What does the Dual Pricing System introduced in China signify in terms of the transition toward a market-based economy while maintaining government control in certain areas?

- (a) Prices set solely by the government
- (b) Prices set by the market
- (c) Transactions at both government-fixed and market prices
- (d) Prices determined by international markets

Ans :

COMP 2005

(c) Transactions at both government-fixed and market prices

Under the Dual Pricing System, farmers and industries in China transacted at both government-fixed and market prices, transitioning toward a market-based economy.

- 16.** What was a significant drawback of China's Great Leap Forward campaign of 1958 that impacted its economic progress and rural development?

- (a) Over-reliance on industrial growth in urban areas
- (b) Setbacks due to severe drought and poor planning
- (c) Discontinuation of communal farming practices
- (d) Lack of involvement of private firms in industrial development

Ans :

OD 2004

(b) Setbacks due to severe drought and poor planning

The Great Leap Forward faced major setbacks, including a severe drought that caused widespread devastation, hindering its goals of industrialization and rural development.

- 17.** How does the demographic profile of Pakistan differ significantly from China and India in terms of population growth and fertility rates?

- (a) Pakistan has the lowest population growth rate but the highest fertility rate.
- (b) Pakistan has the highest population growth rate and the lowest fertility rate.
- (c) Pakistan has the highest population growth rate and fertility rate among the three.
- (d) Pakistan has a balanced population growth and fertility rate compared to China and India.

Ans :

FOREIGN 2005

(c) Pakistan has the highest population growth rate and fertility rate among the three.

Pakistan's population growth rate (2.05%) and fertility rate (3.6) are significantly higher than those of China and India.

- 18.** What factor has contributed to the stagnation of the service sector's growth in India and Pakistan compared to China's rapid expansion in this sector?

- (a) Focus on agricultural exports
- (b) Lack of foreign investment in service industries
- (c) Direct shift from primary to tertiary sectors without strengthening the industrial base
- (d) Limited urbanization compared to China

Ans :

DELHI 2007

(c) Direct shift from primary to tertiary sectors without strengthening the industrial base

In India and Pakistan, there has been a direct shift from agriculture to services without a strong industrial foundation, leading to stagnation in the service sector.

19. In the context of China's economic reforms during the post-reform period, how were the strategies implemented to ensure effective execution and gradual transition to a market-based economy?

- (a) Reforms were implemented simultaneously at a large scale.
- (b) Reforms were first tested at a smaller level before mass implementation.
- (c) Reforms focused only on the agricultural sector.
- (d) Reforms led to the abolition of Special Economic Zones.

Ans :

FOREIGN 2006

(b) Reforms were first tested at a smaller level before mass implementation.

China's economic reforms were implemented in phases, starting small and then expanding to a larger scale, ensuring effective execution.

20. Which of the following correctly describes the sectoral workforce distribution in India, China and Pakistan and what it indicates about their respective economic structures?

- (a) India's workforce is primarily concentrated in industry, reflecting its manufacturing strength.
- (b) China has a balanced workforce distribution across all three sectors, showcasing a diverse economy.
- (c) Pakistan has the highest workforce concentration in services, indicating advanced economic development.
- (d) Agriculture remains the largest employer in India and Pakistan, while China shows a significant shift to industry and services.

Ans :

COMP 2009

(d) Agriculture remains the largest employer in India and Pakistan, while China shows a significant shift to industry and services.

Agriculture employs a larger proportion of the workforce in India (43%) and Pakistan (41%), while China has shifted more significantly to industry (28%) and services (46%).

21. Why did China's economic reforms after 1978 focus initially on agricultural and rural industries before transitioning to other sectors?

- (a) To avoid competition with state-owned enterprises
- (b) To ensure food security and create conditions for rural industrial growth
- (c) To establish communal farming practices
- (d) To privatize all rural industries immediately

Ans :

SQP 2008

(b) To ensure food security and create conditions for rural industrial growth

Agricultural reforms post-1978 in China were aimed at ensuring food security and creating a foundation for the growth of rural industries.

22. India adopted its first Five-Year Plan in the year _____, marking the beginning of its planned economic development.

- (a) 1950
- (b) 1951
- (c) 1952
- (d) 1956

Ans :

OD 2010

(b) 1951

India launched its first Five-Year Plan in 1951 to initiate planned development and focus on agriculture, industry and social services.

23. The Great Leap Forward campaign in China was introduced in _____ to promote large-scale industrialization and collective farming.

- (a) 1949
- (b) 1951
- (c) 1953
- (d) 1958

Ans :

FOREIGN 2011

(d) 1958

The Great Leap Forward was a major initiative launched in 1958 by China to achieve rapid industrial and rural development through collective farming and small-scale industries.

24. Pakistan adopted its first Five-Year Development Plan in _____, following India and China in planning for its economic growth.

- (a) 1949
- (b) 1953
- (c) 1956
- (d) 1960

Ans :

DELHI 2012

(c) 1956

Pakistan introduced its first Five-Year Development Plan in 1956, aiming to industrialize its economy and improve public infrastructure.

25. The Human Development Index (HDI) value of China in 2017-2019 was _____, the highest among India, China and Pakistan.
 (a) 0.645
 (b) 0.557
 (c) 0.761
 (d) 0.720

Ans :

SQP 2013

(c) 0.761
 China's HDI value of 0.761 reflects better achievements in education, health and income compared to India and Pakistan.

26. _____ has the highest fertility rate among India, China and Pakistan, indicating significant demographic challenges in managing population growth.
 (a) India
 (b) China
 (c) Pakistan
 (d) None of the above

Ans :

COMP 2014

(c) Pakistan
 Pakistan's fertility rate of 3.6 is the highest, highlighting challenges in managing population growth and providing adequate resources.

27. The economic growth in Pakistan during the 1980s was significantly supported by remittances from workers in _____.
 (a) Europe
 (b) Middle East
 (c) North America
 (d) South Asia

Ans :

OD 2015

(b) Middle East
 Pakistani workers in the Middle East sent substantial remittances during the 1980s, contributing to economic growth and providing foreign exchange.

28. In 2018-2019, the agricultural sector's contribution to GDP in China was _____, the lowest among the three countries.
 (a) 16%
 (b) 7%
 (c) 24%
 (d) 30%

Ans :

FOREIGN 2016

(b) 7%
 China's agricultural sector contributed only 7% to GDP, reflecting its shift to industrial and service sectors for economic growth.

29. The population growth rate of _____ is the lowest among India, China and Pakistan, indicating better control over population expansion.
 (a) India
 (b) China
 (c) Pakistan
 (d) All are equal

Ans :

DELH 2017

(b) China
 China's population growth rate is 0.46%, the lowest, due to effective implementation of population control measures like the one-child policy.

30. The Special Economic Zones (SEZs) in China were established to attract _____ and boost economic growth.
 (a) Domestic trade
 (b) Foreign investment
 (c) Agricultural output
 (d) Tourism

Ans :

SQP 2018

(b) Foreign investment
 SEZs were created in China to attract foreign investment and integrate its economy with global markets, significantly boosting its economic development.

31. Among India, China and Pakistan, _____ has the highest workforce distribution in the service sector as of 2018-2019.
 (a) India
 (b) China
 (c) Pakistan
 (d) All are equal

Ans :

COMP 2019

(b) China
 China has the highest workforce distribution in the service sector (46%), indicating its transition to a more service-oriented economy.

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CHAPTER 13

COMPARATIVE DEVELOPMENT EXPERIENCES OF INDIA & ITS NEIGHBORS

SUMMARY

1. INTRODUCTION

Various regional and global economic groups like SAARC, European union, Brics, ASEAN, G-8 and G-20 etc, have been formed by nations of the world for protecting their own domestic economies so as to survive competition. In the process of globalisation, the developing countries have been facing competition not only from developed nations but also from other developing ones. So, an understanding of the other economies in the neighbourhood is required which will help up them to understand the developmental processes pursued by the neighbouring countries. This will help them in realising their own strengths and weaknesses in comparison to their neighbours.

2. SIMILARITIES IN THE DEVELOPMENTAL PATH OF INDIA, PAKISTAN AND CHINA

The developmental paths of India, Pakistan and China share common historical and strategic milestones. These similarities highlight their collective journey toward progress in the post-independence era.

1. All the three nations started the developmental path at the same time.
2. India and Pakistan got independence in 1947 and People's Republic of China was established in 1949.
3. All the three countries had started planning their development strategies in similar ways, India commenced its Five Year Plan in 1951, Pakistan in 1956 and China in 1953.
4. India and Pakistan adopted similar strategies such as creating a large public sector and raising public expenditure on social development.
5. Since 2013, Pakistan is working on the basis of 11th Five Year Development Plan (2013-18), China is now working on 13th Five Year

Plan (2016-20). Until March 2017, India had been following the Five Year Plan-based development model.

6. Till the 1980's, all the three countries had similar growth rates and per capita incomes.

DEVELOPMENT PATH OF CHINA

China's developmental journey reflects its unique approach to economic and social transformation under one-party rule. The country's strategies have evolved significantly over time, blending government control with market-oriented reforms.

1. The People's Republic of China (PRC) was established in 1949 under one-party rule, bringing all critical sectors of the economy under government control.
2. The Great Leap Forward (GLF) campaign of 1958 aimed at large-scale industrialization, encouraging people to set up backyard industries. In rural areas, the Commune system promoted collective farming.
3. GLF faced setbacks, including a severe drought that caused widespread devastation.
4. In 1965, Mao Zedong introduced the Great Proletarian Cultural Revolution (1966-76), sending students and professionals to work in the countryside.
5. Reforms began in phases, focusing initially on agriculture, foreign trade and investment, later extending to the industrial sector.
6. Private firms and cooperatives were allowed to set up industrial units, creating competition for government-owned State-Owned Enterprises (SOEs).
7. The Dual Pricing System required farmers and industries to transact at both government-fixed and market prices, gradually increasing market-based transactions.
8. Special Economic Zones (SEZs) were established to attract foreign investment and boost economic growth.

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Ans :

OD 2005

(b) farmers and industrial units buying and selling fixed quantities at prices fixed by the government

42. Number of children born to a woman in the reproductive age on an average is called the

- (a) fertility rate
(b) birth rate
(c) maternal rate
(d) population growth rate

Ans :

FOREIGN 2006

- (a) fertility rate

43. Which of the following countries has the lowest density of population?

- (a) India
(b) China
(c) Pakistan
(d) None of these

Ans :

SQP 2007

- (b) China

44. Which sector of the economy contributes the highest to India's GDP?

- (a) services
(b) industries
(c) agriculture
(d) none of the above

Ans :

DELHI 2008

- (a) services

45. Choose the correct statement:

- (a) Pakistan is the most populous country in the world.
(b) One child norm Policy was adopted in India
(c) Pakistan is ahead of India in providing improved sanitation facilities
(d) agriculture makes the highest contribution to China's GDP

Ans :

COMP 2009

- (c) Pakistan is ahead of India in providing improved sanitation facilities

46. Which of the following countries initiated the Great Leap Forward campaign?

- (a) India
(b) Pakistan
(c) China
(d) Bangladesh

Ans :

OD 2018

- (c) China

47. Which of the following features relate to the Chinese economy?

- (a) growth due to manufacturing sector.
(b) highest density of population among the three Asian countries.
(c) direct shift from primary to the tertiary sector.
(d) policy of denationalisation in late 1970s.

Ans :

OD 2010

- (a) growth due to manufacturing sector.

48. In which year reforms were initiated in Pakistan?

- (a) 1970
(b) 1980
(c) 1988
(d) 1991

Ans :

SQD 2018

- (c) 1988

49. Which of the following countries has the highest Gross Domestic Product (GDP)?

- (a) India
(b) China
(c) Pakistan
(d) Bangladesh

Ans :

COMP 2018

- (b) China

50. In which year China announced its first year plan?

- (a) 1950
(b) 1953
(c) 1960
(d) 1965

Ans :

DELHI 2018

- (b) 1953

51. In which period nationalisation of capital goods industries took place in Pakistan?

- (a) 1950s
(b) 1960s
(c) 1970s
(d) 1980s

Ans :

FOREIGN 2018

- (b) 1960s

52. India is not a member of which of the following regional/global economic grouping?

- (a) SAARC (b) BRICS
(c) G-7 (d) G-20

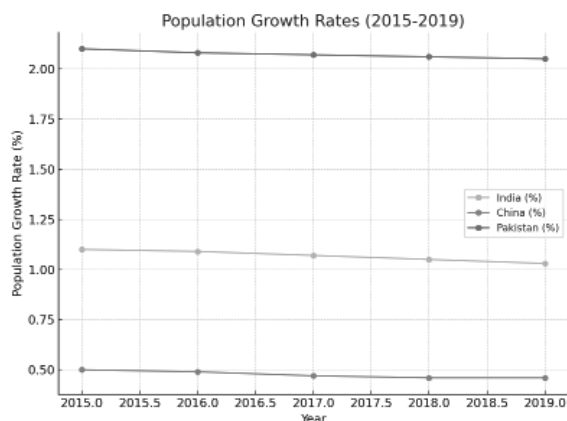
Ans :

OD 2020

- (c) G-7

The pie chart shows that 59% of China's population resides in urban areas, while the remaining 41% lives in rural areas.

101. From the line graph showing population growth rates from 2015 to 2019, which country has consistently had the lowest growth rate?



- (a) India
(b) China
(c) Pakistan
(d) All have equal growth rates

Ans :

FOREIGN 2003

- (b) China

The line graph shows that China's population growth rate is consistently the lowest, starting at 0.5% in 2015 and remaining at 0.46% by 2019. India and Pakistan have higher growth rates throughout the period.

PASSAGE BASED QUESTION

102. India, Pakistan and China started their development with Five Year Plans—India in 1951, China in 1953 and Pakistan in 1956. Post-1978, China introduced Special Economic Zones (SEZs) to attract foreign investment, while Pakistan relied heavily on remittances and loans. What was a key feature of China's development strategy post-1978?
- (a) Reliance on foreign remittances and loans.
(b) Implementation of Green Revolution policies.
(c) Establishment of Special Economic Zones.
(d) Focus solely on agricultural development.

Ans :

DELHI 2012

- (c) Establishment of Special Economic Zones.

China's SEZs attracted foreign investment post-1978. Remittances and loans were a key feature of Pakistan's strategy.

103. Pakistan followed a mixed economy model with both public and private sectors. The Green Revolution boosted agriculture, but reliance on remittances and loans grew. In the 1980s, Pakistan shifted from nationalization to privatization. Which of the following describes a key transition in Pakistan's economic policy after the 1970s?
- (a) Adoption of the Green Revolution.
(b) Focus on the mixed economy model.
(c) Shift from nationalization to privatization.
(d) Heavy investment in Special Economic Zones.

Ans :

SQP 2011

(c) Shift from nationalization to privatization. Pakistan transitioned from nationalization in the 1970s to privatization in the 1980s. SEZs were part of China's strategy.

104. China, India and Pakistan show demographic differences. China has the largest population and lowest growth rate. Urbanization is highest in China (59%), followed by Pakistan (37%) and India (34%). Which country has the highest rate of urbanization among India, Pakistan and China?
- (a) India
(b) Pakistan
(c) China
(d) All three have equal urbanization rates.

Ans :

COMP 2010

- (c) China

China leads in urbanization with 59%, followed by Pakistan (37%) and India (34%).

105. China has the highest Human Development Index (HDI) among India, Pakistan and China, with a value of 0.761. India's HDI is 0.645, while Pakistan's HDI is 0.557. Which country among India, Pakistan and China has the highest Human Development Index (HDI) value?
- (a) India
(b) Pakistan
(c) China
(d) All three have the same HDI value.

Ans :

OD 2009

- (c) China

China's HDI (0.761) is the highest, followed by India (0.645) and Pakistan (0.557).

Ans :

SQP 2024

(c) Assertion is true but Reason is false.

- 63. Assertion :** In China, the primary sector contributes the lowest to GDP.

Reason : In China, due to topographic and climatic conditions, very less area is suitable for cultivation.

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
- (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

OD 2001

(a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.

- 64. Assertion :** In India, the share of the service sector in GDP is the largest.

Reason : Majority of the Indian workforce is engaged in the industrial sector.

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
- (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

SQP 2004

(d) Assertion is false but Reason is true.

- 65. Assertion :** A low infant mortality rate indicates better health and sanitation facilities.

Reason : The low growth rate of population in China is attributed to the one-child policy introduced in 1970.

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
- (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

FOREIGN 2002

(b) Assertion and Reason both are correct statements but Reason is not correct explanation

for Assertion.

- 66. Assertion :** In Pakistan, the reform process improved the economic indicators and resulted in fast economic growth.

Reason : In Pakistan, agricultural growth was based on good harvest and not on institutionalized process of technical change.

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
- (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

DELHI 2003

(d) Assertion is false but Reason is true.

- 67. Assertion :** All the three nations started their development path at the same time.

Reason : Among all the three nations, Pakistan has performed poorly due to political instability and growing dependence on foreign loans.

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
- (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

COMP 2005

(a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.

- 68. Assertion :** Pakistan has the highest fertility rate.

Reason : Introduction of one-child policy brought down the fertility rate in China.

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
- (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

OD 2006

(b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.

53. The main aim of 'Great Leap Forward' (GLF) in China was to ensure rapid increase of _____.
 (a) agriculture
 (b) industries
 (c) services
 (d) exports

Ans :

FOREIGN 2020

- (b) industries

54. Which of the following countries adopted 'One Child Policy' as a measure to control population?
 (a) India
 (b) China
 (c) Pakistan
 (d) Russia

Ans :

SQP 2020

- (b) China

55. Great Proletarian Cultural Revolution was introduced under the leadership of _____.
 (a) Mao Zedong
 (b) J.L. Nehru
 (c) M.K. Gandhi
 (d) M.A. Jinnah

Ans :

COMP 2020

- (a) Mao Zedong

56. Which of the following countries initiated its process of Economic Reforms in the year 1991?
 (a) Pakistan
 (b) India
 (c) Russia
 (d) China

Ans :

OD 2020

- (b) India

57. "GLF" with respect to the People's Republic of China referred to as _____.
 (a) Giant Leap Forward
 (b) Great Lead Forum
 (c) Great Leap Forward
 (d) Giant Lead Forum

Ans :

FOREIGN 2020

- (c) Great Leap Forward

58. Introduction of Economic Reforms in China took place in the year _____.
 (a) 1978
 (b) 1980
 (c) 1988
 (d) 1991

Ans :

DELHI 2020

- (a) 1978

59. China initiated _____ in 1958, that aimed at industrializing the country on a massive scale.
 (a) The Great Proletarian Cultural Revolution
 (b) Setting up of Special Economic Zones
 (c) Introduction of Economic Reforms
 (d) The Great Leap Forward Campaign

Ans :

DELHI 2023

- (d) The Great Leap Forward Campaign

60. _____ acts as a measure of 'the extent of democratic participation in social and political decision-making.'
 (a) Human Development Index
 (b) Liberty Indicator
 (c) Economic Growth
 (d) Poverty Index

Ans :

SQP 2023

- (b) Liberty Indicator

61. Identify the incorrect statement from the following:
 (a) China's Economic growth rate is better than that of Pakistan.
 (b) Pakistan is behind India in HDI ranking.
 (c) One Child policy norm was adopted in Pakistan.
 (d) In 1991, India adopted New Economic Reforms.

Ans :

OD 2023

- (c) One Child policy norm was adopted in Pakistan.

ASSERTION AND REASON

62. **Assertion :** The developmental experiences of India and Pakistan have a lot of similarities.
Reason : Both India and Pakistan laid emphasis on creating a large private sector.
 (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
 (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
 (c) Assertion is true but Reason is false.
 (d) Assertion is false but Reason is true.

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
- (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans :

FOREIGN 2012

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.

STATEMENT BASED QUESTIONS

- 76. Statement 1 :** China has used Market system mechanism without losing political commitment to create additional social and economic opportunities.

Statement 2 : India, Pakistan and China have similar physical endowments but totally different Political systems.

- (a) Statement 1 is true & Statement 2 is false.
- (b) Statement 1 is false & Statement 2 is true.
- (c) Both statements 1 & 2 are true.
- (d) Both statements 1 & 2 are false.

Ans :

OD 2024

- (c) Both statements 1 & 2 are true.

- 77. Statement 1 :** China has used the market mechanism to create additional social and economic opportunities for its citizens.

Statement 2 : In China, Social Infrastructure created by the government brought positive results in human development indicators.

- (a) Statement 1 is true & Statement 2 is false.
- (b) Statement 1 is false & Statement 2 is true.
- (c) Both statements 1 & 2 are true.
- (d) Both statements 1 & 2 are false.

Ans :

FOREIGN 2024

- (c) Both statements 1 & 2 are true.

- 78. Statement 1 :** China introduced structural economic reforms on its own, without any pressure.

Statement 2 : Scholars argue that in India, the economic reforms process led to the worsening of all the economic indicators.

- (a) Statement 1 is true & Statement 2 is false.
- (b) Statement 1 is false & Statement 2 is true.
- (c) Both statements 1 & 2 are true.
- (d) Both statements 1 & 2 are false.

Ans :

OD 2023

- (a) Statement 1 is true & Statement 2 is false.

Statement 1 : Amongst India, China and Pakistan, China is the largest nation and has the highest population density.

Statement 2 : One-child policy introduced in the late 1970s in China led to a considerable decline in the population growth rate.

- (a) Statement 1 is true & Statement 2 is false.
- (b) Statement 1 is false & Statement 2 is true.
- (c) Both statements 1 & 2 are true.
- (d) Both statements 1 & 2 are false.

Ans :

FOREIGN 2023

- (b) Statement 1 is false & Statement 2 is true

- 80. Statement 1 :** Great Proletarian Cultural Revolution was introduced in China in 1950's.

Statement 2 : China's growth is mainly contributed by the manufacturing sector.

- (a) Statement 1 is true & Statement 2 is false.
- (b) Statement 1 is false & Statement 2 is true.
- (c) Both statements 1 & 2 are true.
- (d) Both statements 1 & 2 are false.

Ans :

DELHI 2023

- (d) Both statements 1 & 2 are false.

- 81. Statement 1 :** Special Economic Zones (SEZ's) policy has led to huge Foreign Direct Investment (FDI) flow to China.

Statement 2 : China's rapid industrial growth was the result of its economic reform in 1981.

- (a) Statement 1 is true & Statement 2 is false.
- (b) Statement 1 is false & Statement 2 is true.
- (c) Both statements 1 & 2 are true.
- (d) Both statements 1 & 2 are false.

Ans :

SQP 2023

- (a) Statement 1 is true & Statement 2 is false.

- 82. Statement 1 :** First Five Year Plan of China commenced in the year 1956.

Statement 2 : Both India and China adopted Socialist Economy model, following USSR.

- (a) Statement 1 is true & Statement 2 is false.
- (b) Statement 1 is false & Statement 2 is true.
- (c) Both statements 1 & 2 are true.
- (d) Both statements 1 & 2 are false.

Ans :

COMP 2023

(d) Both statements 1 & 2 are false.

83. Which of the following statements about the developmental paths of India, Pakistan and China is correct?

1. India, Pakistan and China began their development strategies in different decades.
 2. All three nations started planning their development strategies using Five Year Plans.
 3. China implemented its first Five Year Plan before India and Pakistan.
 4. Pakistan never adopted the Five Year Plan model.
- (a) Only 1 and 2 are correct
 (b) Only 2 is correct
 (c) 1, 2 and 3 are correct
 (d) Only 4 is correct

Ans :

COMP 2023

(b) Only 2 is correct

India, Pakistan and China adopted Five Year Plans for their development strategies. India began in 1951, China in 1953 and Pakistan in 1956. The other statements are incorrect.

84. Which of the following statements about the demographic indicators of India, China and Pakistan is incorrect?

1. China has the lowest population density among the three.
 2. Pakistan has the highest fertility rate among the three.
 3. India has the highest proportion of urbanized population among the three.
 4. All three nations exhibit a low and gender-biased sex ratio.
- (a) Only 1 is incorrect
 (b) Only 2 is incorrect
 (c) Only 3 is incorrect
 (d) All are correct

Ans :

OD 2022

(c) Only 3 is incorrect

China has the highest urbanization rate (59%), followed by Pakistan (37%) and India (34%). Thus, statement 3 is incorrect, while 1, 2 and 4 are correct.

85. Which of the following correctly identifies a challenge in Pakistan's economic development?

1. Dependence on institutionalized agricultural growth.
2. Heavy reliance on foreign remittances and

loans.

3. Consistent improvement in poverty and sanitation indicators since reforms.
 4. Shift from a mixed economy model to complete privatization.
- (a) Only 2 is correct
 (b) Only 1 and 2 are correct
 (c) Only 3 is correct
 (d) 1, 2 and 4 are correct

Ans :

FOREIGN 2021

(a) Only 2 is correct

Pakistan's challenges include reliance on foreign remittances and loans, inconsistent agricultural growth and difficulty repaying loans. Only statement 2 is accurate. Statements 1, 3 and 4 are incorrect.

86. Which of the following statements about China's Great Leap Forward (GLF) campaign is correct?

1. GLF aimed at large-scale industrialization.
 2. Backyard industries were set up as part of GLF.
 3. The GLF campaign faced setbacks due to droughts.
 4. GLF was implemented after the economic reforms of 1978.
- (a) Only 1, 2 and 3 are correct
 (b) Only 2 and 4 are correct
 (c) All statements are correct
 (d) Only 1 and 4 are correct

Ans :

DELHI 2020

(a) Only 1, 2 and 3 are correct

GLF aimed at industrialization, promoted backyard industries and faced setbacks due to droughts. However, it was implemented before the 1978 reforms.

87. Which of the following statements about Pakistan's development strategies is correct?

1. Pakistan followed a mixed economy model.
 2. The Green Revolution led to mechanization in agriculture.
 3. Nationalization of industries occurred in the 1970s.
 4. Pakistan completely stopped relying on foreign loans in the 1980s.
- (a) Only 1, 2 and 3 are correct
 (b) Only 2 and 4 are correct
 (c) Only 3 and 4 are correct
 (d) All statements are correct

Ans :

SQP 2019

- (a) Only 1, 2 and 3 are correct

Pakistan relied on a mixed economy model, introduced mechanization through the Green Revolution and nationalized industries in the 1970s. However, reliance on foreign loans continued.

- 88.** Which of the following statements is true about China's economic reforms?

1. China's reforms began in the 1990s.
2. The Great Leap Forward campaign of 1958 was part of the reform period.
3. Post-reform, China established Special Economic Zones (SEZs) to attract foreign investment.
4. Agricultural reforms in China were unsuccessful in fostering rural industry growth.

- (a) Only 3 is correct
(b) Only 1 and 2 are correct
(c) 3 and 4 are correct
(d) Only 4 is correct

Ans :

SQP 2005

- (a) Only 3 is correct

China's reforms began in 1978, not the 1990s. The Great Leap Forward occurred before the reform period. Agricultural reforms were successful. Post-reform, SEZs were established to attract investment.

- 89.** Which of the following is true about the demographic indicators of India, China and Pakistan?

1. China has the highest life expectancy at birth.
2. India has the highest fertility rate.
3. Pakistan has the highest population growth rate.
4. All three nations have a sex ratio favoring males.

- (a) Only 1 and 3 are correct
(b) Only 2 and 4 are correct
(c) Only 1, 3 and 4 are correct
(d) All statements are correct

Ans :

COMP 2018

- (c) Only 1, 3 and 4 are correct

China has the highest life expectancy (76.9 years) and Pakistan has the highest population growth rate. India does not have the highest fertility rate; Pakistan does.

- 90.** Which of the following correctly describes the sectoral contributions in India, China and Pakistan?

1. Agriculture employs the largest workforce in all three countries.
2. Industry contributes the highest percentage to GDP in China.
3. India's service sector contributes more to GDP than agriculture and industry combined.
4. Pakistan's industrial sector has shown consistent double-digit growth.

- (a) Only 1 and 3 are correct
(b) Only 1, 2 and 3 are correct
(c) Only 2 and 4 are correct
(d) All statements are correct

Ans :

OD 2017

- (b) Only 1, 2 and 3 are correct

Agriculture employs the largest workforce in all three countries, China's industry leads in GDP contribution and India's service sector dominates its GDP. Pakistan's industrial growth has not been consistent.

- 91.** Which of the following statements about human development indicators in China is incorrect?

1. China has the highest Human Development Index (HDI) value among the three countries.
2. China has the lowest infant mortality rate.
3. China's maternal mortality rate is higher than India's.
4. China has the highest percentage of people with access to basic sanitation.

- (a) Only 1 is incorrect
(b) Only 2 is incorrect
(c) Only 3 is incorrect
(d) All statements are correct

Ans :

FOREIGN 2016

- (c) Only 3 is incorrect

China's maternal mortality rate (29) is significantly lower than India's (133). The other statements about China's HDI, infant mortality and sanitation are correct.

- 92.** Which of the following describes the challenges faced by Pakistan in the post-reform period?

1. Heavy reliance on remittances from workers abroad.
2. Increased dependence on foreign loans.
3. Growth in industrial output through institutional reforms.
4. Lack of technical changes in agriculture.

NODIA

69. Assertion : The Great Leap Forward campaign was initiated in 1968 by Mao.

Reason : The Great Leap Forward campaign was initiated to modernize China's economy.

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
- (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans : FOREIGN 2007

- (d) Assertion is false but Reason is true.

70. Assertion : The post-reform period saw rapid growth in economic development in China.

Reason : The Commune system led to inequitable distribution of food grains.

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
- (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans : OD 2011

- (c) Assertion is true but Reason is false.

71. Assertion : During the reform process, China adopted dual pricing.

Reason : The annual growth rate of the population in China is much lower as compared to India.

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
- (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans : COMP2009

- (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.

72. Assertion : During 1980's, economic growth rate of Pakistan was more than that of India.

Reason : Pakistan followed the path of mixed economic structure with equal participation of the public and the private sector.

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.

- (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.

- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans : DELHI 2023

- (c) Assertion is true but Reason is false.

73. Assertion : Special Economic Zones were set up to attract foreign investors.

Reason : China wanted to transform its agrarian economy into a modern economy through the process of rapid industrialisation.

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
- (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans : DELHI 2008

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.

74. Assertion : World Bank and IMF compelled China to introduce reforms in 1978.

Reason : In China, each reform measure was first implemented at a smaller level and then extended on a massive scale.

- (a) Assertion and Reason both are correct statements and Reason is correct explanation for Assertion.
- (b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
- (c) Assertion is true but Reason is false.
- (d) Assertion is false but Reason is true.

Ans : SQP 2010

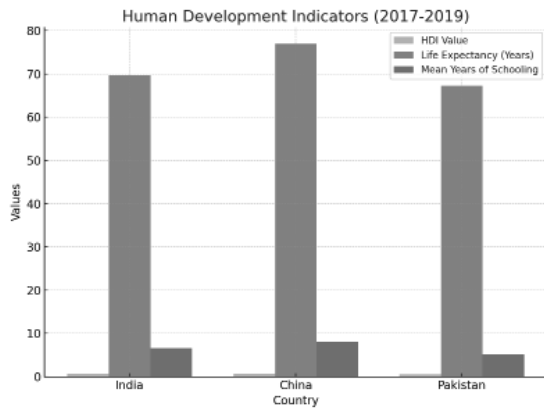
- (d) Assertion is false but Reason is true.

75. Assertion : Public investment in social infrastructure has brought about positive results in human development indicators in China.

Reason : Development of infrastructural facilities in the areas of education and health and land reforms have helped to improve the social and income indicators.

GRAPH BASED QUESTIONS

97. From the bar graph, which country has the highest Human Development Index (HDI) value, life expectancy and mean years of schooling?



- (a) India
(b) China
(c) Pakistan
(d) India and Pakistan

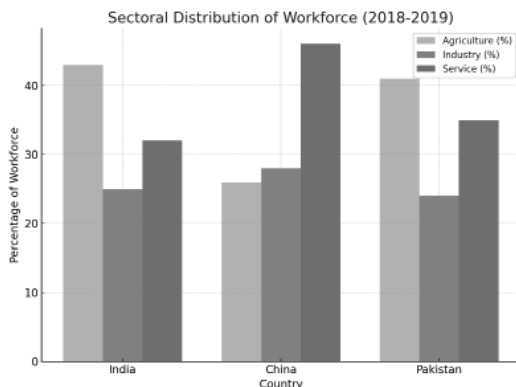
Ans :

DELHI 2007

- (b) China

The bar graph shows that China has the highest HDI value (0.761), life expectancy (76.9 years) and mean years of schooling (8.1) among the three countries. India and Pakistan rank lower in all these indicators.

98. From the bar graph, which sector employs the largest proportion of the workforce in India?



- (a) Agriculture
(b) Industry
(c) Services
(d) None of the above

Ans :

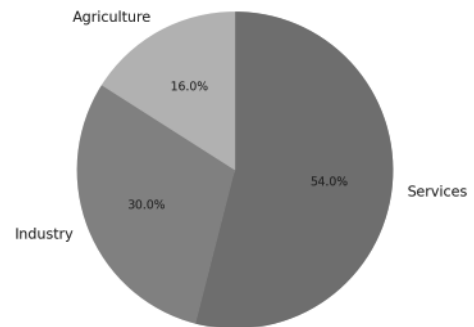
SQP 2006

- (a) Agriculture

The bar graph shows that 43% of the workforce in India is employed in agriculture, which is the largest proportion compared to industry (25%) and services (32%).

99. From the pie chart showing sectoral contributions to India's GDP, which sector contributes the highest percentage?

Sectoral Contribution to GDP in India (2018-2019)



- (a) Agriculture
(b) Industry
(c) Services
(d) All contribute equally

Ans :

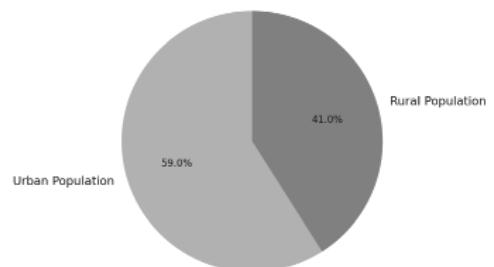
COMP 2005

- (c) Services

The pie chart clearly shows that the services sector contributes 54% to India's GDP, which is higher than agriculture (16%) and industry (30%).

100. From the pie chart showing urban and rural population distribution in China (2017-2018), what percentage of the population resides in urban areas?

Urban and Rural Population Distribution in China (2017-2018)



- (a) 41%
(b) 59%
(c) 50%
(d) 70%

Ans :

OD 2004

- (b) 59%

- (a) Only 1, 2 and 4 are correct
- (b) Only 2 and 3 are correct
- (c) Only 1, 2 and 3 are correct
- (d) All statements are correct

Ans :

DELHI 2016

- (a) Only 1, 2 and 4 are correct

Pakistan faced challenges such as reliance on remittances, dependence on loans and a lack of technical agricultural reforms. However, its industrial output did not grow significantly through institutional changes.

93. Which of the following statements about India's development strategy is correct?

1. India adopted the Five Year Plan model in 1951.
2. The public sector was prioritized in India's early development.
3. India continued its Five Year Plans beyond 2017.
4. India's agriculture sector consistently contributed the most to its GDP.

- (a) Only 1 and 2 are correct
- (b) Only 1, 2 and 4 are correct
- (c) Only 2 and 3 are correct
- (d) All statements are correct

Ans :

SQP 2015

- (a) Only 1 and 2 are correct

India adopted the Five Year Plan model in 1951 and prioritized the public sector. However, Five Year Plans ended in 2017 and agriculture does not consistently contribute the most to GDP.

94. Which of the following statements about the demographic indicators of Pakistan is true?

1. Pakistan has the highest population growth rate among the three nations.
2. Pakistan's fertility rate is the lowest among the three.
3. Urbanization is lower in Pakistan than in India.
4. Pakistan's population density is higher than China's but lower than India's.

- (a) Only 1 and 4 are correct
- (b) Only 2 and 3 are correct
- (c) Only 1, 3 and 4 are correct
- (d) All statements are correct

Ans :

COMP 2015

- (c) Only 1, 3 and 4 are correct

Pakistan has the highest population growth rate and population density higher than China but lower than India. Urbanization is lower in Pakistan than in India.

95. Which of the following is true about the human development indicators of India, China and Pakistan?

1. India has the highest HDI value among the three.
 2. Pakistan has the lowest mean years of schooling.
 3. China has the lowest poverty ratio.
 4. Infant mortality rates are highest in Pakistan.
- (a) Only 1 and 2 are correct
 - (b) Only 2, 3 and 4 are correct
 - (c) Only 1, 3 and 4 are correct
 - (d) All statements are correct

Ans :

OD 2014

- (b) Only 2, 3 and 4 are correct

India does not have the highest HDI value; China does. Pakistan has the lowest mean years of schooling and the highest infant mortality rate, while China has the lowest poverty ratio.

96. Which of the following correctly describes the sectoral employment patterns in India, China and Pakistan?

1. India has the highest proportion of workforce in agriculture.
 2. China's workforce in services is higher than in agriculture and industry.
 3. Pakistan has a balanced workforce distribution across all three sectors.
 4. Agriculture employs the largest proportion of the workforce in all three countries.
- (a) Only 1, 2 and 4 are correct
 - (b) Only 1, 3 and 4 are correct
 - (c) Only 1 and 4 are correct
 - (d) All statements are correct

Ans :

FOREIGN 2013

- (a) Only 1, 2 and 4 are correct

India has the highest workforce in agriculture and services dominate employment in China. However, Pakistan does not have a balanced workforce distribution.

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- 106.** Agriculture contributes 16% to India's GDP, 24% in Pakistan and 7% in China. However, China's industrial sector contributes 41% to GDP, making it the largest sector in its economy.

Which sector contributes the most to China's GDP?

- (a) Agriculture
- (b) Industry
- (c) Services
- (d) None of the above

Ans :

FOREIGN 2008

- (b) Industry

Industry contributes 41% to China's GDP, the highest among all sectors.

ONE MARK QUESTIONS

- 107.** Mention the problems faced by the Great Leap Forward campaign.

Ans :

DELHI 2024

This campaign faced numerous challenges, including a severe drought in China that caused the death of around 30 million people.

- 108.** Why are regional and economic groups formed?

Ans :

OD 2000

They are established to enhance the economic strength of member countries.

- 109.** Maternal Mortality Rate is high in _____ (China/Pakistan). (Fill up the blank with correct alternative)

Ans :

FOREIGN 2020

Pakistan.

- 110.** Name two areas of development where Pakistan is lagging behind.

Ans :

SQP 2011

Health and Education.

- 111.** What does a high maternal mortality rate imply?

Ans :

COMP 2003

It signifies a country's inability to ensure adequate and effective healthcare during childbirth.

- 112.** What is adult literacy rate?

Ans :

OD 2004

It is the proportion of literate adults to the total adult population in a country.

- 113.** What do you mean by people below poverty line?

Ans :

FOREIGN 2005

It refers to individuals whose income and expenditure levels are inadequate to meet the minimum specified calorie intake.

- 114.** Out of the three Nations, which country has the lowest access to improved sanitation?

Ans :

DELHI 2006

India's success in providing sanitation facilities to its citizens lags significantly behind China and Pakistan.

- 115.** Mention two growth indicators.

Ans :

SQP 2007

- (i) The rate at which a country's Gross Domestic Product (GDP) increases over time.
- (ii) The share of different sectors in the total GDP.

- 116.** What do you mean by sectoral contribution?

Ans :

COMP 2008

It denotes the share of each economic sector in the country's GDP.

TWO MARK QUESTIONS

- 117.** Explain briefly the problem faced by Great leap forward campaign.

Ans :

OD 2022

The Great Leap Forward (GLF) campaign, launched in 1958 in China to promote large-scale industrialization, faced significant challenges. Backyard industries were encouraged, but a severe drought led to mass starvation, killing about 30 million people. The disaster was worsened by ineffective government responses to the famine and Russia's withdrawal of professionals assisting with industrialization due to conflicts with China.

- 118.** Explain the significance of global economic groups like SAARC, BRICS and ASEAN.

Ans :

FOREIGN 2009

Global economic groups protect domestic economies and enable nations to survive global competition. These groups help developing nations face challenges from developed and other developing countries. They also foster collaboration, strengthen trade relations and help member nations achieve sustainable economic growth.

- 119.** What similarities exist in the developmental paths of India, Pakistan and China?

Ans : DELHI 2010

India, Pakistan and China started development after independence, with India and Pakistan beginning in 1947 and China in 1949. All adopted Five-Year Plans and similar strategies, such as public sector creation and social development. Until the 1980s, they had comparable growth rates and per capita incomes, reflecting similar initial progress.

- 120.** Highlight two major features of China's development strategy.

Ans : SQP 2011

China's strategy includes the Great Leap Forward (1958), which aimed for large-scale industrialization by promoting backyard industries and collective farming. It also established Special Economic Zones (SEZs) to attract foreign investment, boost manufacturing and integrate with the global economy.

- 121.** Describe Pakistan's economic policy changes in the 1970s and 1980s.

Ans : COMP 2012

In the 1970s, Pakistan nationalized capital goods industries, giving the public sector a dominant role. By the late 1970s and 1980s, it shifted towards denationalization and private sector growth. Financial aid and remittances from the Middle East also supported economic recovery during this period.

- 122.** Compare the population growth rates of India, China and Pakistan.

Ans : OD 2013

Pakistan has the highest population growth rate at 2.05%, followed by India at 1.03%. China has the lowest growth rate at 0.46% due to its effective one-child policy. These trends reflect varying levels of success in controlling population

growth among the three nations.

- 123.** How do India, China and Pakistan differ in Human Development Index (HDI) rankings?

Ans : FOREIGN 2014

China leads with an HDI value of 0.761 (rank 87), followed by India at 0.645 (rank 130). Pakistan lags behind with an HDI value of 0.557 (rank 154). The disparities highlight differences in their progress in health, education and income indicators.

- 124.** What role does agriculture play in the economies of India, China and Pakistan?

Ans : DELHI 2015

Agriculture employs the majority in India (43%) and Pakistan (41%) but contributes minimally to GDP. In China, agriculture employs only 26% of the workforce but benefits from modernization and contributes significantly to food security and exports.

- 125.** Discuss the main reasons for China's economic growth since the 1978 reforms.

Ans : SQP 2016

China's phased reforms focused on agriculture, trade and industry. The establishment of SEZs and the Dual Pricing System helped modernize its economy and attract foreign investments. Additionally, infrastructural development and policy changes encouraged private sector growth.

- 126.** Why did Pakistan's economic growth slow down after the 1980s?

Ans : COMP 2017

Pakistan's growth slowed due to reliance on remittances and volatile agricultural exports. Dependence on foreign loans and repayment challenges worsened the situation. Political instability and lack of structural reforms further impeded sustained economic progress.

- 127.** Compare the sectoral contributions to GDP in India, China and Pakistan.

Ans : OD 2018

In 2018-19, agriculture contributed 16% to India's GDP, 7% to China's and 24% to Pakistan's. The service sector dominated GDP in all three, contributing 54% in India, 52% in China and 57% in Pakistan. The industrial sector also showed significant output, particularly in China.

THREE MARK QUESTIONS

128. (a) “Scholars find son preference as a common phenomenon in India, Pakistan and China.” Justify the given statement in the light of skewed sex-ratio.
(b) State any two liberty indicators.

Ans :

SQP 2024

- (a) In all three countries, a preference for sons has resulted in a low and biased sex ratio. India has the lowest ratio at 924 females per 1000 males, followed by Pakistan at 943 and China at 949. Recently, all three nations have implemented measures to improve this disparity.
(b) The liberty indicator measures the extent of demographic participation in social and political decision-making. Examples include:
(i) The level of protection granted to citizens' rights.
(ii) The independence of the judiciary and adherence to the rule of law.

129. From the given data compare and analyse the Population Density and Fertility Rate of China and Pakistan, with valid reasons:
Demographic Indicators, 2017-18

Country	Estimated Population (in million)	Annual Growth of Population	Population Density (per sq. km)	Sex Ratio	Fertility Rate	Urbanisation
India	1352	1.03	455	924	2.2	34
China	1393	0.46	148	949	1.7	59
Pakistan	212	2.05	275	943	3.6	37

Ans :

OD 2024

- (a) China has a lower population density (148 persons per sq. km.) compared to India (455 persons per sq. km.) and Pakistan (275 persons per sq. km.). This is due to China's vast geographical area as the third largest country and its low annual population growth rate.
(b) Fertility rate, the average number of children born to a woman during her reproductive years (15-45), is 1.7 in China due to its One Child Policy. Pakistan has the highest fertility rate at 3.6, followed by India at 2.2.

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130. From the given data, Compare and analyse the Annual Growth of Population and Sex Ratio of China and Pakistan, with valid reasons:
Demographic Indicators, 2017-18

Country	Estimated Population (in million)	Annual Growth of Population	Population Density (per sq. km)	Sex Ratio	Fertility Rate	Urbanisation
India	1352	1.03	455	924	2.2	34
China	1393	0.46	148	949	1.7	59
Pakistan	212	2.05	275	943	3.6	37

Ans :

FOREIGN 2024

China, despite being the world's most populous country in 2017-18, has a lower annual population growth rate (0.46%) compared to Pakistan's (2.05%) due to the One Child Policy introduced in the late 1970s, which significantly reduced population growth. The sex ratio, reflecting the number of females per 1000 males, is low and biased against females in all three countries. In China, it stands at 949 females per 1000 males, while in Pakistan, it is 943 females per 1000 males.

131. What are the various means by which countries are trying to strengthen their own domestic economies?

Ans :

FOREIGN 2019

Countries strengthen their domestic economies by collaborating through regional and economic groupings such as SAARC, ASEAN, EU, G-8 and G-20, fostering mutual cooperation based on shared interests. They analyze development strategies of members to understand strengths and weaknesses. Economic liberalization by reducing government intervention enables efficient market-driven activities, enhancing competitiveness globally. Moreover, globalization policies integrate economies, attracting foreign investments and technology, boosting overall economic growth and resilience. These efforts collectively reinforce national economic structures and global competitiveness.

132. Describe the path of developmental initiatives taken by Pakistan for its economic development.

Ans :

DELHI 2020

Pakistan's development path involved adopting a mixed economic model with public and private sector coexistence. It implemented a regulated policy framework focusing on import substitution

- 156.** Read the paragraph given below and answer the questions that follow:

India and Pakistan began their economic journeys around the same time post-independence. While Pakistan's per capita GDP once surpassed India's in the 1960s, India has since overtaken Pakistan on nearly every economic front.

Today, India is the fifth-largest economy globally, recently surpassing the UK, while Pakistan struggles with a weak economy and growing debt. India's GDP is nearly 10 times that of Pakistan, which ranks 45th globally. Additionally, India ranks 63rd in the World Bank's 2020 Ease of Doing Business, ahead of Pakistan at 108th.

India has transitioned from an agrarian economy to a global economic power, with the service sector contributing over 60% to GDP. Manufacturing is also pivotal, supported by initiatives like 'Make in India,' driving economic growth further.

- (i) Pakistan is ahead of India in the following Human Development indicator:
 - (a) people below poverty line
 - (b) percentage of undernourished population
 - (c) life expectancy at birth
 - (d) maternal mortality
- (ii) Choose the correct statement:
 - (a) China's economic growth is mainly contributed by the service sector
 - (b) One child policy was adopted in Pakistan
 - (c) Manufacturing sector contributes the highest in GDP in India
 - (d) Pakistan is ahead of India in providing improved sanitation facilities
- (iii) China has a very high fertility rate compared to India and Pakistan. (True/False)
- (iv) Identify the correct pair.

	Column I		Column II
1.	One child policy	A	India
2.	The great leap forward	B	Pakistan
3.	Lowest growth of population	C	Pakistan
4.	Lowest Fertility rate	D	China

Ans :

- (i) (a) people below poverty line
- (ii) (d) Pakistan is ahead of India in providing

improved sanitation facilities

(iii) False

(iv) 4 – D

- 157.** Read the paragraph given below and answer the questions that follow:

Since initiating reforms in 1978, China's GDP has grown nearly 10% annually, lifting over 800 million people out of poverty and improving access to health and education. Now an upper-middle-income country, poverty alleviation must focus on vulnerabilities of those still considered poor, including urban populations.

China's resource-intensive growth model, based on manufacturing, exports and low wages, has reached its limits, creating economic, social and environmental imbalances. To reduce these, China must transition to high-end manufacturing, services and consumption-driven growth.

Growth has slowed due to structural issues like a declining labor force and reduced productivity. The challenge is to find new growth drivers while addressing the consequences of past development. Institutional gaps must also be bridged, with the state fostering stable market expectations, a fair business environment and strong regulatory systems.

- (i) Following economic reforms were introduced by China in 1978:
 - (a) the dual pricing system
 - (b) setting up of special economic zones
 - (c) introduction of Green Revolution
 - (d) both (a) and (b)
- (ii) In China, the Commune system is related to _____ sector.
 - (a) agriculture
 - (b) industry
 - (c) service
 - (d) informal
- (iii) Arrange the following events of China in chronological order and choose the correct alternative:
 - I. Great Proletarian Cultural Revolution
 - II. Great Leap Forward campaign
 - III. Introduction of Economic Reforms
 - IV. First Five-Year Plan

Options :

 - (a) II, IV, III, I
 - (b) IV, II, I, III
 - (c) II, IV, I, III
 - (d) IV, I, II, III

- 138.** Compare and analyse the following information related to Annual Growth of Gross Domestic Product (GDP) of India and China:

Annual Growth of Gross Domestic Product

Country	1980-90	2015-17
India	5.7	7.3
China	10.3	6.8

Ans :

OD 2023

Between 1980 and 1990, China achieved a remarkable double-digit GDP growth rate of 10.3%, while India's growth rate was 5.7%. However, during 2015-17, China's growth rate declined to 6.8%, whereas India experienced an upswing, with its GDP growth increasing from 5.7% to 7.3%.

- 139.** Define Liberty Indicator. Give some examples

Ans :

FOREIGN 2022

The liberty indicator measures the degree of demographic participation in social and political decision-making. Examples include:

- The extent of protection provided to citizens' rights.
- The level of judicial independence and adherence to the rule of law.

The Human Development Index (HDI) is considered incomplete without incorporating these indicators, as they are essential for assessing true societal progress and human well-being.

- 140.** Why is HDI is considered multidimensional?

Ans :

SQP 2021

The Human Development Index (HDI) is a composite measure of human development, assessing average achievements in health, education and living standards. While it does not replace GNP, it enhances understanding of societal well-being. Key features include:

- Measuring education and health alongside income.
- Directing policymakers' focus toward the ultimate goals of development.
- Treating upward movement in HDI as economic progress.
- Addressing disparities in income, avoiding the relative deprivation linked to GNP.

Thus, HDI is a multidimensional and more meaningful national average compared to GNP.

- 141.** Why is human development considered good for the physical environment?

Ans :

COMP 2020

Human development is viewed as a pathway to higher productivity, as a well-nourished, healthy, educated and skilled population is a valuable asset. Poverty contributes to environmental issues such as deforestation and soil degradation. Consequently, human development, which aids in poverty alleviation, also positively impacts the physical environment by reducing environmental degradation and promoting sustainable practices.

FOUR MARK QUESTIONS

- 142.** Why is China considered to be ahead of India in majority of economic and social aspects?

Ans :

DELHI 2024

India and China have pursued growth and development for over six decades, achieving diverse outcomes:

- China is more developed than India, with a robust export-oriented manufacturing sector, while India lags in this area.
- China's economic reforms have significantly reduced poverty, whereas poverty remains a major issue in India despite reforms.
- Superior infrastructure in transportation, communication, energy and banking gives China an edge over India.
- China's focus on education and health investments has resulted in better human development indicators than India.
- Economic reforms began earlier in China (1978) than in India (1991).
- China excels in attracting foreign direct investment (FDI), aided by SEZs and liberal FDI policies, including in retail.
- Replacing the Commune farming system with household cultivation revolutionized Chinese agriculture, while land ownership remained state-controlled.

These factors have driven China's faster economic progress compared to India.

- 143.** Evaluate the factors that led to the rapid economic development in China.

Ans :

OD 2011

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of the workforce and contributed 41% to GVA. India's industry employed 25% of its workforce, generating 30% of GVA, while Pakistan's industry employed 24% but contributed only 19%. Across all three countries, the service sector dominates, contributing the most to GVA and emerging as a significant employer.

Between 1980 and 2019, the service sector workforce grew from 17% to 32% in India, 12% to 46% in China and 27% to 35% in Pakistan. Agricultural growth has declined in all three nations over the last three decades. China has achieved notable growth in its service sector, whereas India's growth has been driven primarily by services. In Pakistan, all three sectors have experienced deceleration. China's combined manufacturing and service sectors have significantly propelled its overall growth, while India has relied heavily on services.

Sector	Contribution to GVA			Distribution of workforce		
	India	China	Pakistan	India	China	Pakistan
Agri-culture	16	7	24	43	26	41
Industry	30	41	19	25	28	24
Services	54	52	57	32	46	35
Total	100	100	100	100	100	100

- 150.** Discuss the reasons for the slowdown in the GDP growth of China in the recent past.

Ans :

DELHI 2015

Key reasons for China's GDP growth slowdown include:

1. **Global Economic Slowdown:** Reduced demand for Chinese products due to sluggish global economies.
2. **Skilled Labor Migration:** A significant migration of skilled workers seeking higher wages abroad, leading to a workforce deficit.
3. **Sustainability Challenges:** Rapid GDP growth has posed challenges to sustainable development, straining resources and the environment.
4. **Declining Domestic Demand:** A notable drop in domestic consumption has further contributed to the slowdown in China's GDP growth.

These factors collectively underscore the challenges faced by China in maintaining its high economic growth rate.

- 151.** Discuss the main reasons responsible for the emergence of poverty in Pakistan.

Ans :

SQP 2016

The emergence of poverty in Pakistan stems from multiple factors. First, the nation has struggled with unstable institutional reforms in agriculture, resulting in a volatile sector highly dependent on monsoon for good harvests. Second, its economy heavily relies on foreign remittances, aid from Western countries and unpredictable agricultural exports, making growth susceptible to setbacks in these areas. Third, political instability has escalated public expenditure on law and order. Lastly, prioritizing a strong defense system has diverted significant resources away from developmental spending, further hindering progress and exacerbating poverty in the country.

- 152.** Give an appraisal of the developmental initiatives taken by Pakistan for its economic development.

Ans :

COMP 2017

In the 1990s, Pakistan experienced economic decline compared to the 1980s, with slower GDP growth and rising poverty. Key factors included reliance on good harvests for agricultural growth and food supply, rather than systematic technical advancements. Economic stability fluctuated with harvest success. Foreign exchange earnings depended on remittances from Middle East workers and exports of unstable agricultural products. Additionally, rising foreign debt and repayment challenges intensified economic difficulties. However, recent years have seen economic recovery, with sustained growth and improved macroeconomic indicators, reflecting stability and progress in Pakistan's economy.

- 153.** Give an appraisal of the development strategies followed by China.

Ans :

OD 2022

China initiated reforms to address dissatisfaction with its slow economic growth and lack of modernization. The leadership believed that the Maoist approach—emphasizing decentralization, self-sufficiency and avoidance of foreign technology and capital—had failed. Despite efforts like land reforms, collectivization and the Great Leap Forward, per capita grain output showed minimal improvement. However, infrastructure in education, health and small enterprises positively influenced social and income indicators post-

China ranks 91, India ranks 131 and Pakistan ranks 148 on the HDI scale.

- 147.** Discuss the one child policy adopted by China. What were its objectives. Discuss its consequences.

Ans :

COMP 2014

China's one-child policy, introduced in 1979 as part of a birth planning program, aimed to control the rapid population growth by limiting families to one child. In the mid-1980s, the policy was modified to permit rural families a second child if the first was a girl. The primary objective was to curb the population growth rate, which was deemed excessively high by the government. Consequences of the One-Child Policy:

1. **Reduced Fertility and Birth Rates:** The fertility and birth rates dropped significantly after 1980.
2. **Declined Population Growth:** The gap between the birth and death rates narrowed.
3. **Fewer Births:** An estimated 400 million births were prevented due to the policy.
4. **Skewed Sex Ratio:** A preference for sons led to a male-dominated population, with 33.59 million more men than women by 2016.
5. **Increase in Female Fetus Abortions:** The desire for male children resulted in a rise in abortions of female fetuses.
6. **Infanticide and Orphanages:** Female infanticide increased, as did the number of girls in orphanages.
7. **Incentives for Compliance:** Families adhering to the policy received financial benefits and better employment opportunities.
8. **Strict Enforcement:** Measures like forced sterilizations and abortions were imposed to ensure compliance.

This policy significantly influenced China's demographic and social structure but drew criticism for its ethical implications.

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- 148.** Discuss the contribution of various sectors in the economy of India, China and Pakistan.

Ans :

OD 2018

Sectoral contribution: In all the three economies, the industry and service sectors have less proportion of workforce, but they contribute more in terms of output.

Sectoral contribution to GVA (in %) 2018-2019

Sectors	India	China	Pakistan
Agriculture	16	7	24
Industry	30	41	19
Service	54	52	57
Total	100	100	100

Sectoral distribution of workforce (in %) 2018-19

Sectors	India	China	Pakistan
Agriculture	43	26	41
Industry	25	28	24
Service	32	46	35
Total	100	100	100

- (i) In the last two decades, the contribution of agricultural sector to GDP, which employs the largest proportion of workforce in all the three countries, has declined.
- (ii) In the industrial sector, China has maintained a double-digit growth rate, whereas for India and Pakistan, the growth rate has declined.
- (iii) In the service sector, India and Pakistan have stagnated but China has managed to increase the rate of growth of its service sector.
- (iv) China has emerged as the manufacturing hub of the world. About one half of its GDP originates from the industrial sector. The service sector comes second and then the agriculture sector.
- (v) In India and Pakistan, there has been a direct shift from primary to the tertiary sector.

- 149.** Give a comparative overview of sectoral share of employment and Gross Domestic Product (GDP) in India, China and Pakistan.

Ans :

FOREIGN 2019

China and Pakistan have a higher proportion of urban population than India. Due to topographic and climatic constraints, China has a smaller area suitable for cultivation. Until the 1980s, over 80% of China's population depended on agriculture. However, various government initiatives shifted the workforce to sectors like handicrafts, commerce and transport. By 2018-19, only 26% of China's workforce was engaged in agriculture, contributing 7% to its GDP (now GVA). In contrast, agriculture accounted for 16% of India's GVA and 24% of Pakistan's GVA, with 43% of India's workforce and 41% of Pakistan's engaged in farming.

The industrial sector in China employed 28%

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China's rapid economic growth is attributed to several key factors. Firstly, reforms were initiated in agriculture, foreign trade and investments, later extending to industry. The country prioritized export-oriented domestic production and utilized its cheap labor force for a cost advantage. Transitioning from a centrally planned to a market economy also played a pivotal role. Foreign direct investment surged, while the introduction of dual pricing allowed fixed government rates alongside market prices. Additionally, the establishment of Special Economic Zones (SEZs) attracted foreign investors, boosting industrial and trade activities significantly. These strategic measures collectively propelled China's economic transformation.

144. Explain the following:

- (i) The Great Leap Forward campaign
- (ii) Great Proletarian Cultural Revolution

Ans :

FOREIGN 2012

In 1958, Mao Zedong launched the Great Leap Forward (GLF) to modernize China's agrarian economy through rapid industrialization. The campaign encouraged setting up backyard industries and introduced communes in rural areas, where collective farming was practiced. By 1958, 26,000 communes encompassed nearly the entire rural population. However, the GLF faced severe challenges, including a devastating drought that led to the deaths of about 30 million people. Later, in 1965, Mao initiated the Great Proletarian Cultural Revolution (1966–76), sending students and professionals to the countryside to learn from rural life. Industrialization efforts also suffered as Russian experts withdrew amidst Sino-Soviet conflicts.

145. Discuss the Great Leap Forward campaign initiated by China. What were its objectives. Why was the Great Leap Forward a failure?

Ans :

DELHI 2019

The Great Leap Forward campaign, initiated by Chinese communists between 1958 and the early 1960s, sought to address China's industrial and agricultural challenges by organizing its vast population, particularly in rural areas. This campaign emphasized labor-intensive industrialization, prioritizing manpower over machinery and capital investment. It aimed to transform China into a competitive industrialized nation capable of rivaling the West. Additionally, the campaign focused on fostering a collectivized

society where socialist principles shaped work, production and social structures.

The campaign had two primary objectives:

1. To create an industrialized economy to catch up with the West.
2. To establish a collectivized society defined by socialist values.

The Great Leap Forward aimed for large-scale industrialization, encouraging people to set up backyard industries. It also introduced the commune system, where people collectively cultivated land. However, the campaign was not successful due to inadequate central planning. In industry, unattainable production quotas led to rushed, low-quality outputs. Additionally, the promotion of inexperienced and unskilled workers to leadership roles resulted in inefficient labor and resource management.

In agriculture, leadership was also assigned to inexperienced individuals. The lack of worker incentives to meet quotas, as profits from extra efforts were not shared, further hindered productivity. These issues led to a devastating famine, causing the deaths of approximately 30 million people and leaving a lasting impact on China.

146. Explain the meaning and implications of the following:

1. Life expectancy at birth
2. Infant mortality rate
3. Human Development Index

Ans :

SQP 2013

1. Life Expectancy at Birth: This indicates the average number of years a person is expected to live. A higher life expectancy reflects a longer and more active average lifespan. Among India, China and Pakistan, China boasts the highest life expectancy, followed by India, with Pakistan ranking the lowest.
2. Infant Mortality Rate (IMR): This metric represents the number of infant deaths (before one year of age) per thousand live births in a year. A lower IMR signifies better health and sanitation facilities, as most infant deaths result from poor hygiene and inadequate healthcare. China has the lowest IMR, reflecting superior healthcare and sanitation, while Pakistan records the highest.
3. Human Development Index (HDI): HDI is a crucial measure of human development, where a higher HDI value corresponds to greater growth and development. Globally,

reforms. The Commune system ensured equitable food distribution and granting individual land plots for cultivation significantly improved the livelihoods of the poor. This success in agriculture laid the groundwork for rural industrial growth and further reforms.

- 154.** Give a brief comparison between Indian economy and Pakistan's economy.

Ans :

FOREIGN 2023

India and Pakistan share similarities and differences in their economies. Both nations adopt a mixed economic system, blending public and private sectors. Economic reforms were introduced in Pakistan in 1988 and in India in 1991. India excels in telecommunications, information technology and human capital formation, while Pakistan leads in urbanization and sanitation facilities. However, India outperforms Pakistan in human development indicators, including infant mortality rate, maternal mortality rate and adult literacy rate, highlighting better social and health outcomes. These distinctions underline the diverse developmental trajectories of the two nations despite shared economic systems.

CASE BASED QUESTION

- 155.** Read the paragraph given below and answer the questions that follow:

India has slipped two positions on the Human Development Index (HDI), as per the 2020 Human Development Report released by the United Nations Development Programme (UNDP). Previously ranked 131 among 189 countries in 2019, Asia's third-largest economy saw a decline despite steady progress. The HDI measures a nation's average achievements in three key dimensions of human development: education, life expectancy and per capita income, which collectively reflect health, education and living standards. Notably, India was ranked 129 in 2018.

While India is ranked 131, neighboring countries like Bhutan (129), Bangladesh (133), Nepal (142) and Pakistan (154) have also been highlighted in the report. UNDP Resident Representative Shoko Noda explained that the ranking drop does not imply poor performance by India but rather reflects better advancements by other nations. He commended India's efforts to

reduce carbon emissions and expressed confidence in its ability to assist other countries.

The 2020 report reveals that India's life expectancy at birth in 2019 was 69.7 years, compared to Bangladesh at 72.6 years and Pakistan at 67.3 years. Additionally, India's gross national income per capita declined to USD 6,681 in 2019 from USD 6,829 in 2018, based on purchasing power parity (PPP), which compares currencies by evaluating the prices of similar goods in different countries.

India's HDI value for 2019 is 0.645, placing the country in the medium human development category and ranking it 131 out of 189 nations and territories. Between 1990 and 2019, India's HDI value rose from 0.429 to 0.645, marking a 50.3% improvement over three decades.

- (i) China discontinued the one child policy because:
 - (a) there were more elderly people in its population
 - (b) the growth rate of the population decreased
 - (c) China's workforce decreased
 - (d) both (a) and (c)
- (ii) An upward movement in HDI shows:

What does a high HDI indicate?

 - (a) deterioration of an economy
 - (b) development of an economy
 - (c) stagnation of an economy.
 - (d) downfall of an economy.
- (iii) Identify the indicators of human development?
 - (a) GDP per capita
 - (b) primary consumption rate
 - (c) morbidity
 - (d) Global burden of diseases
- (iv) China's growth is mainly contributed by the _____ sector and India's growth by the _____ sector.
 - (a) manufacturing, agriculture
 - (b) services, manufacturing
 - (c) agricultural, services
 - (d) manufacturing, services

Ans :

- (i) (d) both (a) and (c)
- (ii) (b) development of an economy
- (iii) (a) GDP per capita
- (iv) (d) manufacturing, services

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and industrialization, including tariff protection and import controls. Mechanization and public infrastructure investment, particularly in agriculture, were prioritized. Initially, capital goods industries were nationalized, but the focus later shifted to denationalization and private sector encouragement. Incentives were provided to attract private investment, creating a favorable environment for economic growth and new ventures.

- 133.** Compare and analyse the given data of India and China, with valid reasons:

Country	Annual growth rate of population (2015)	Gender ratio (Per thousand males)
India	1.2%	929
China	0.5%	941

Ans :

SQP 2020

Globally, one in every six people is either Indian or Chinese. Although China is the most populous country, its annual population growth rate (0.5%) is lower than India's (1.2%) due to China's One Child Policy introduced in the 1970s. Both countries face a low gender ratio, reflecting bias against females. In India, there are 929 females per 1000 males, while in China, the ratio is slightly better at 941 females per 1000 males.

- 134.** Compare and analyse the Annual Growth rate of population of India and China.

Country	Annual Growth rate of population (2015)
India	1.2%
China	0.5%

Ans :

COMP 2020

China, the world's most populous country, has a lower annual population growth rate (0.5%) compared to India (1.2%) due to its One Child Policy introduced in the late 1970s. While effective in controlling population growth, it also caused a decline in the child sex ratio and led to long-term demographic challenges, such as an aging population with a higher proportion of elderly to young people. To mitigate these effects, China has now permitted couples to have two children.

- 135.** From the given data, Compare and analyse Annual growth of Population and Urbanisation of China and Pakistan, with valid reasons:

Demographic Indicators, 2017-18

Country	Estimated Population (in million)	Annual Growth of Population	Population Density (per sq. km)	Sex Ratio	Fertility Rate	Urbanisation
India	1352	1.03	455	924	2.2	34
China	1393	0.46	148	949	1.7	59
Pakistan	212	2.05	275	943	3.6	37

Ans :

DELHI 2020

China's population growth rate is notably low at 0.46%, reflecting the impact of the One Child Policy, while Pakistan's growth rate is significantly higher at 2.05%, over four times China's rate. Additionally, China's urbanization rate is relatively high at 59%, a result of sustained developmental strategies. In contrast, Pakistan's urbanization rate is lower at 37%, indicating a comparatively lesser degree of urbanization.

- 136.** State certain similarities in the development path of India, Pakistan and China.

Ans :

DELHI 2018

India, Pakistan and China share similarities in their developmental paths. All began their development journeys around the same period, with India and Pakistan gaining independence in 1947 and China forming the People's Republic in 1949. Planning strategies were initiated similarly, with India's Five-Year Plan starting in 1951, Pakistan's in 1956 and China's in 1953. India and Pakistan emphasized public sectors and social development expenditure. By the 1980s, all had comparable growth rates and per capita incomes. Pakistan and China later continued Five-Year Plan approaches, while India transitioned from this model in 2017.

- 137.** What is the significance of the one child norm adopted by China in 1979?

Ans :

COMP 2021

China's One Child Policy effectively reduced its population growth rate but created long-term demographic challenges. Over time, the proportion of elderly people in China's population will significantly increase compared to the younger demographic. This imbalance means fewer young individuals will bear the responsibility of supporting a larger elderly population, which could strain resources, hinder economic growth and reduce the working-age population, impacting overall productivity.

- (iv) In comparison to China Indian Human development is higher. (True/False)

Ans :

- (i) (d) both (a) and (b)
- (ii) (a) agriculture
- (iii) (b) IV, II, I, III
- (iv) True

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